

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K** 405

THE TOTAL NUMBER OF PAGES  
CONTAINED IN THIS NUMBERED  
MANUALLY SIGNED ORIGINAL  
AND ANY EXHIBITS OR ATTACH-  
MENTS HERETO IS 92  
INDEX TO EXHIBITS  
APPEARS ON PAGES 35 & 36

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND EXCHANGE ACT OF 1934 [FEE REQUIRED]**

For the fiscal year ended December 31, 1995

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-10788

**/ INTERNATIONAL SPECIALTY PRODUCTS INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)  
818 Washington Street  
Wilmington, Delaware  
(Address of Principal Executive Offices)

51-0333696  
(I.R.S. Employer Identification No.)

19801  
(Zip Code)



Registrant's telephone number, including area code: (302) 429-8554

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on  
Which Registered

Common Stock, par value \$.01 per share ..... New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Commission File Number 33-44862

**1. ISP CHEMICALS INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)  
Rt. 95 Industrial Area, P.O. Box 37  
Calvert City, Kentucky  
(Address of Principal Executive Offices)

13-3416260  
(I.R.S. Employer Identification No.)

42029  
(Zip Code)

Registrant's telephone number, including area code: (502) 395-4165

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Commission File Number 33-44862-01

**3. ISP TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)  
State Highway 146 & Industrial Road  
Texas City, Texas  
(Address of Principal Executive Offices)

51-0333795  
(I.R.S. Employer Identification No.)

77590  
(Zip Code)

Registrant's telephone number, including area code: (409) 945-3411

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

PROCESSED BY  
92-36-307  
MAR 29 1996

DISCLOSURE INC.  
LYN

### See Table of Additional Registrants Below

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best knowledge of International Specialty Products Inc., in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

As of March 22, 1996, 97,846,313 shares of common stock of International Specialty Products Inc. were outstanding. The aggregate market value of the voting stock held by non-affiliates of International Specialty Products Inc. as of March 22, 1996 was \$218,943,026. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of Common Stock of International Specialty Products Inc. on such date (\$12.75). For purposes of the computation, voting stock held by executive officers and directors of the registrants and GAF Chemicals Corporation, an affiliate of International Specialty Products Inc., has been excluded. Such exclusion is not intended, and shall not be deemed, to be an admission that such executive officers and directors are affiliates of International Specialty Products Inc.

As of March 22, 1996, ISP Chemicals Inc. and ISP Technologies Inc. each had 10 shares of common stock outstanding. No shares are held by non-affiliates.

As of March 22, 1996, each of the additional registrants had the number of shares outstanding which is shown on the table below. No shares are held by non-affiliates.

### DOCUMENTS INCORPORATED BY REFERENCE

1. The Annual Report to Stockholders of International Specialty Products Inc. for the year ended December 31, 1995 is incorporated by reference in Part II, Items 5, 6, 7 and 8.
2. The Proxy Statement for the 1996 Annual Meeting of Stockholders of International Specialty Products Inc. to be filed within 120 days after the Registrants' fiscal year end (the "Proxy Statement") is incorporated by reference in Part III, Items 10, 11, 12 and 13.

# ADDITIONAL REGISTRANTS

<u>Exact name of registrant as specified in its charter</u>	<u>State or other jurisdiction of incorporation or organization</u>	<u>No. of Shares Outstanding</u>	<u>I.R.S. Employer Identification No.</u>	<u>Address, including zip code and telephone number, including area code, of registrant's principal executive office</u>
ISP (PUERTO RICO) INC.	Delaware	10	13-2626732	Suite 206B, Iturregui Plaza 65th Infanteria Ave. Rio Piedras, Puerto Rico 00924 (809) 768-5400
ISP ENVIRONMENTAL SERVICES INC.	Delaware	10	51-0333801	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP FILTERS INC.	Delaware	10	51-0333796	4436 Malone Road Memphis, TN 38118 (901) 795-2445
ISP GLOBAL TECHNOLOGIES INC.	Delaware	10	51-0333802	818 Washington Street Wilmington, DE 19801 (302) 429-7492
ISP INTERNATIONAL CORP.	Delaware	10	51-0333734	818 Washington Street Wilmington, DE 19801 (302) 429-7493
ISP INVESTMENTS INC.	Delaware	10	51-0333803	818 Washington Street Wilmington, DE 19801 (302) 429-7496
ISP MANAGEMENT COMPANY, INC.	Delaware	10	51-0333800	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP MINERAL PRODUCTS INC.	Delaware	10	51-0333794	34 Charles Street Hagerstown, MD 21740 (301) 733-4000
ISP MINERALS INC.	Delaware	10	51-0333798	Route 116 Blue Ridge Summit, PA 17214 (717) 794-2184
ISP REAL ESTATE COMPANY, INC.	Delaware	10	22-2886551	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP REALTY CORPORATION	Delaware	10	13-2720081	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
VERONA INC.	Delaware	10	22-3036319	NCNB Plaza, Suite 300 7 North Laurens St. Greenville, SC 29601 (803) 271-9194
BLUEHALL INCORPORATED	Delaware	10	13-3335905	818 Washington Street Wilmington, DE 19801 (302) 651-0165

## PART I

### Item 1. *Business*

#### General

International Specialty Products Inc. ("ISP") is a leading multinational manufacturer of specialty chemicals, mineral products, filter products, and advanced materials.

ISP, incorporated in Delaware in 1991, operates its business exclusively through 18 domestic subsidiaries, 34 international subsidiaries and a joint venture with Hüls Aktiengesellschaft, a German corporation ("Hüls"), in which ISP has a 50% interest and which operates under the name GAF-Hüls Chemie GmbH ("GAF-Hüls"). Except as the context otherwise requires, "ISP" refers to International Specialty Products Inc. and its subsidiaries and their predecessors.

ISP is a 82% owned subsidiary of GAF Chemicals Corporation ("GCC"). GCC is a wholly-owned subsidiary of G Industries Corp. ("G Industries"). G Industries is a holding company which also owns, directly or indirectly, all of the issued and outstanding stock of Building Materials Corporation of America ("BMCA") and all of the capital stock of GAF Broadcasting Company Inc. ("Broadcasting"). G Industries is a wholly-owned subsidiary of G-I Holdings Inc. ("G-I Holdings"). G-I Holdings also owns indirectly all of the issued and outstanding capital stock of U.S. Intec, Inc. ("USI"). G-I Holdings is a wholly-owned subsidiary of GAF Corporation ("GAF"). ISP is indirectly controlled by Samuel J. Heyman, Chairman of the Board of Directors and Chief Executive Officer of ISP and GAF.

ISP Chemicals Inc. ("ISP Chemicals"), ISP Technologies Inc. ("ISP Technologies") and the additional registrants are consolidated subsidiaries of ISP and, together with ISP Van Dyk Inc., ISP Fine Chemicals Inc. and ISP Newark Inc., constitute all of the domestic subsidiaries of ISP. ISP Chemicals was incorporated in Delaware in 1987 under the name Nordenham Inc. ISP Technologies was incorporated in Delaware in 1991 under the name ISP 6 Corp.

The address and telephone number for the principal executive offices of ISP are: 818 Washington Street, Wilmington, Delaware 19801; (302) 429-8554 or (800) 526-5315. The address and telephone number for the principal executive offices of ISP Chemicals are: Route 95 Industrial Area, P.O. Box 37, Calvert City, Kentucky 42029; (502) 395-4165. The address and telephone number for the principal executive offices of ISP Technologies are: State Highway 146 and Industrial Road, Texas City, Texas 77590; (409) 945-3411.

Financial information concerning ISP's industry segments and foreign and domestic operations required by Item 1 is included in Notes 11 and 12 to the Consolidated Financial Statements contained in ISP's Annual Report to Stockholders for the year ended December 31, 1995 (the "Annual Report") and is incorporated by reference herein.

#### Specialty Chemicals

*Products and Markets.* ISP manufactures more than 325 specialty chemicals having numerous applications in consumer and industrial products. ISP uses proprietary technology to convert various raw materials, through a chain of one or more processing steps, into increasingly complex and higher value added specialty products to meet specific customer requirements. More than 200 of ISP's specialty chemical products are derived from acetylene, including intermediates, solvents, vinyl ethers and polymers, and sales of these products represent the majority of ISP's specialty chemical sales.

ISP's specialty chemicals consist of nine main groups of products: vinyl ether polymers, polyvinyl pyrrolidone polymers, solvents, intermediates, specialty preservatives, sunscreens, emollients, pearlescent pigments and fine chemicals.

Vinyl ether polymers are used by the cosmetics, personal care, pharmaceutical and health-related industries, primarily in hair care and dental care products. Vinyl ether monomers and oligomers are used in coatings and inks for both consumer and industrial products.

Polyvinyl pyrrolidone polymers are used primarily in cosmetics, personal care, pharmaceutical and health-related products, food and beverages, and detergent formulations. Examples are drug and vitamin tablet binders and disintegrants; clarifiers and chill-hazing elimination agents for beer, wine and fruit juices; microbiocidal products for human and veterinary applications; hair care products such as hair sprays, mousses, conditioners, gels and glazes; ingredients in water-resistant mascaras, sunscreens and lipsticks; specialty coatings, adhesives, ink jets and media for consumer and industrial applications; and dispersants and binders in agricultural chemical formulations.



Solvents are sold to customers for use in agricultural chemicals, pharmaceuticals, coatings, wire enamels, adhesives, plastics, electronic coating and cleaning applications, petroleum extraction and specialty cleaners. ISP's family of solvents includes, among others, N-methyl-2-pyrrolidone, *gamma*-butyrolactone, 2-pyrrolidone and tetrahydrofuran, many of which are used by ISP as raw materials in the manufacture of monomers and polymers.

Intermediates are manufactured primarily for use by ISP as raw materials in manufacturing solvents and polymers. Some intermediates are also sold to customers for use in the manufacture of engineering plastics and elastomers, agricultural chemicals, oil production auxiliaries and other products. Butanediol, an intermediate produced by ISP, is an essential raw material in the manufacture of polybutylene terephthalate ("PBT") thermoplastic resins and polyurethane elastomers, which are used in the automotive, electronics and appliance industries.

Specialty preservatives are proprietary products that are marketed worldwide to the cosmetics, personal care and household industries. ISP sells a number of preservative products, including Germall® 115, Germall® II, Germaben® II, Germaben® II-E, Suttocide® A and LiguaPar® Oil. Uses include infant care preparations, eye and facial makeup, after-shave and nail, bath, hair and skin preparations.

ISP Van Dyk Inc. produces three multifunctional specialty chemical product lines which ISP markets to the cosmetics and personal care industries—ultraviolet absorber chemicals, the principal active ingredients in sunscreens; pearlescent pigments, which provide the pearly or lustrous color in lipsticks, eye shadows and other cosmetics; and emollients and emulsifiers, which are used as moisturizing and softening agents in a variety of creams and lotions, hair care products and other cosmetics. ISP Van Dyk Inc.'s Escalol®, Pearl Glo® and Ceraphyl® trademarks are widely recognized for their respective sunscreen, pigment and emollient properties.

ISP Fine Chemicals Inc. produces a broad range of pharmaceutical intermediates, biological buffers, pheromones and several bulk active pharmaceuticals which serve the pharmaceutical, biotechnology, agricultural and chemical process industries. Fine chemicals are extremely specialized products, made in small quantities, which because of their complexity are priced at several hundred to several thousand dollars per kilogram. ISP Fine Chemicals Inc. also provides a custom manufacturing capability serving the pharmaceutical, biotechnology, agricultural and chemical process industries.

**Marketing and Sales.** ISP markets its specialty chemicals through a worldwide marketing and sales force, typically chemists or chemical engineers, who work closely with ISP's customers to familiarize themselves with their customers' products, manufacturing processes and markets. ISP conducts its marketing and domestic sales from ISP's headquarters in Wayne, New Jersey and regional offices strategically located throughout the United States.

**International Operations.** ISP markets all of its specialty chemicals worldwide. ISP conducts its international operations through 33 subsidiaries and 42 sales offices located in Western and Eastern Europe, Canada, Latin America and the Asia-Pacific region. Services of local distributors are also used to reach markets that might otherwise be unavailable to ISP.

ISP had in excess of 60% of its international sales in 1995 in countries in Western Europe and Japan which are subject to currency exchange rate fluctuation risks. For a discussion of ISP's policy regarding the management of these risks, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Financial Condition" contained in the Annual Report. Other countries in which ISP has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation, and general instability.

International sales in 1995 of ISP's specialty chemicals, excluding sales by GAF-Hüls, were approximately 45% of ISP's total 1995 sales. GAF-Hüls, a joint venture in which ISP holds a 50% interest, produces certain intermediates and solvents. The GAF-Hüls plant is located in Marl, Germany.

**Raw Materials.** Because of the multi-step processes required to manufacture ISP's specialty chemicals, ISP believes that its raw material costs represent a smaller percentage of the cost of goods sold than for most other chemical companies. It is estimated that approximately one-third of ISP's manufacturing costs are for raw materials (including energy and packaging). As a result, fluctuations in the pricing of raw materials have less impact on ISP than on those chemical companies for which raw materials costs represent a larger percent of manufacturing costs.

The principal raw materials used in the manufacture of ISP's specialty chemicals are acetylene, methanol and methylamine. Most of these raw materials are obtained from outside sources pursuant to long-term supply

agreements. Acetylene, a significant raw material used in the production of most of ISP's specialty chemicals, is obtained by ISP for domestic use from two unaffiliated suppliers pursuant to long-term supply contracts. At ISP's Texas City and Seadrift, Texas plants, acetylene is supplied via pipeline by a neighboring company that generates it as a by-product from ethylene manufacture. At ISP's Calvert City, Kentucky facility, acetylene is supplied via pipeline by a neighboring company that generates it from calcium carbide. The acetylene utilized by GAF-Hüls is produced by Hüls, using a proprietary electric arc process, sourced from various hydrocarbon feedstocks. ISP believes that this diversity of supply sources, using a number of production technologies (ethylene by-product, calcium carbide and electric arc), provides it with a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, no assurances can be made that ISP would be able to obtain as much acetylene from other sources as would be necessary to meet its supply requirements. ISP has a long-standing agreement with GAF-Hüls to import butanediol into the United States for use as a feedstock for the production of ISP's solvents and polymers. ISP has not experienced an interruption of its acetylene supply that has had a material adverse effect on its sales of specialty chemicals.

With regard to raw materials other than acetylene, ISP believes that in the event of a supply interruption it could obtain adequate supplies from alternate sources. Raw materials derived from petroleum or natural gas are used in many of ISP's manufacturing processes and, consequently, the price and availability of petroleum and natural gas could be material to ISP's operations. During 1995, crude oil and natural gas supplies and prices remained constant, with some seasonal and weather related variations. Methanol, which experienced a substantial increase in price in the latter half of 1994 and the first half of 1995 due to a shortage of supply, experienced a significant decline in price in the second half of 1995, to levels below the lowest prices encountered in 1994, as a result of increases in capacity by methanol suppliers. Due to the increases in methanol capacity, ISP believes, although there can be no assurance, that the market conditions which caused the sudden rise in methanol prices will not reoccur in the near future.

### **Mineral Products**

*Products and Markets.* ISP manufactures mineral products consisting of ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at ISP's quarries and colored using a proprietary ceramic chemical coating process. ISP's mineral roofing granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection and increased weight. ISP is the second largest of only two major suppliers of colored roofing granules in North America. ISP also markets granule by-products for use in the construction and maintenance of fast dry, clay-like tennis courts.

ISP estimates that approximately 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. Homeowners generally replace their roofs either because they are worn, thereby creating concerns as to weather-tightness, or because of the homeowners' desire to upgrade the appearance of their homes. ISP estimates that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of ISP's colored mineral granules have benefitted from a trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which results in both functional and aesthetic improvements which require, on average, approximately 60% more granules than traditional three-tab, lightweight roofing shingles.

BMCA purchases 100% of its colored roofing granule requirements from ISP (except for the requirements of its California roofing plant which are supplied by a third party). These purchases constituted approximately one-half of ISP's mineral products net sales in 1995. Sales to BMCA in 1995 were made under a requirements contract which was renewed for one year, effective January 1, 1996, and is subject to annual renewal unless terminated by BMCA or ISP. In addition, in December 1995, USI commenced purchasing substantially all of its requirements for colored roofing granules from ISP (except for the requirements of its Stockton, California and Corvallis, Oregon plants which are supplied by a third party) pursuant to a requirements contract which expires December 31, 1997.

*Raw Materials.* ISP owns rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability to hold pigments. ISP owns three quarries, each with proven reserves, based on current production levels, of more than 20 years.

## Filter Products and Advanced Materials

ISP manufactures and sells filter products, consisting of pressure filter vessels, filter bags and filter systems, and sells cartridges and cartridge housings. These filter products are designed for the treatment of process liquids, with the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries accounting for more than 90% of ISP's 1995 net sales of filter products.

ISP manufactures pressure filter vessels at manufacturing facilities in Brazil, Canada and Germany, which serve both local and international markets. ISP also manufactures filter bags in Belgium, Canada, Singapore, Brazil and the United States and supplies filter products worldwide through its subsidiaries, sales offices and distributors.

ISP manufactures a variety of advanced materials, including high-purity carbonyl iron powders, sold under ISP's trademark Micropowder™, used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food industries. Using proprietary technology, ISP manufactures more than 50 different grades of Micropowder™ iron, one of which is sold under the trademark Ferronyl®, for use as a vitamin supplement.

The primary markets for ISP's Micropowder™ are the domestic defense industry, which employs these products in a variety of coating systems and molded panels for stealth purposes in aircraft and naval ships, and the emerging metal injection molding segment of the powder metallurgy industry. ISP is the sole domestic manufacturer of carbonyl iron powders.

ISP manufactures a line of processless, electronically imaged film products, including RAD-SURE®, which is a radiation sensitive film strip affixed to blood bags to indicate whether or not they have been properly irradiated.

## Competition

ISP believes that it is either the first or second largest seller worldwide of its specialty chemicals derived from acetylene other than butanediol and tetrahydrofuran. Butanediol, which ISP produces primarily for use as a raw material, is also manufactured by a limited number of companies in the United States, Germany, Japan and Korea. Tetrahydrofuran is manufactured by a number of companies throughout the world. While there are companies, other than ISP and its principal competitor, that manufacture a limited number of ISP's other specialty chemicals, the market position of these companies is much smaller than that of ISP (other than as to solvents and intermediates, with respect to which there is a significant third competitor). In addition to ISP's competition as noted above, there are other companies that produce substitutable products for a number of ISP's specialty chemicals. These companies compete with ISP in the personal care, pharmaceutical, beverage, preservative and industrial markets and have the effect of limiting ISP's market penetration and pricing flexibility. (Statements contained herein as to ISP's competitive position are based on industry information which ISP believes to be reliable).

Beginning in 1994, ISP experienced a dramatic improvement in the severe competitive conditions which had adversely affected ISP's intermediates and solvents business during the three preceding years as a result of an additional competitor having entered the market in 1991. As a result of improved worldwide demand for ISP's intermediates and solvents products coming principally, with respect to intermediates, from PBT engineering plastic producers for an increasingly wide range of both automotive and electrical component applications and, with respect to solvents, from increased demand for a number of existing and new applications, together with a regulatory and customer-driven trend to replace chlorinated and other volatile solvents with ISP's safer solvent, N-methyl pyrrolidone ("NMP"), industry-wide capacity utilization rates for these products substantially increased in 1994 and 1995. As a result, while butanediol ("BID") and NMP prices had declined fairly substantially from the beginning of 1992 to mid-1994, higher capacity utilization rates, together with substantial price increases of methanol, enabled ISP to implement worldwide price increases in 1994 and 1995, establishing BID prices at levels higher than in the recent past and reversing a significant portion of the previous decline in NMP prices. While future competitive conditions will depend in large measure on future worldwide demand for ISP's customers' end-use products, ISP expects that the current trends could well continue in 1996, although there can be no assurance.

With regard to its mineral products, ISP has only one major and one smaller competitor and believes that competition has been limited by: (i) the substantial capital expenditures associated with the construction of new mineral processing and coloring plants and the acquisition of suitable rock reserves; (ii) the limited availability of proven rock sources; (iii) the complexity associated with the construction of a mineral processing and coloring plant,

together with the technical know-how required to operate such a plant; (iv) the need to obtain, prior to commencing operations, reliable data over a substantial period of time regarding the weathering of granules in order to assure the quality and durability of the product; and (v) the difficulty in obtaining the necessary permits to mine and operate a quarry.

With respect to filter products, ISP competes with a number of companies worldwide. With respect to advanced materials, ISP is the sole domestic manufacturer of carbonyl iron powders and one of only two manufacturers worldwide.

Competition is largely based upon product and service quality, technology, distribution capability and price. ISP believes that it is well positioned in the marketplace as a result of its broad product lines, sophisticated technology and worldwide distribution network.

### **Research and Development**

ISP's worldwide research and development expenditures were \$21.2 million, \$20.3 million and \$21.9 million in 1993, 1994 and 1995, respectively.

ISP's research and development department is located primarily at ISP's worldwide technical center and laboratories in Wayne, New Jersey and additional research and development is conducted at the Calvert City, Kentucky, Texas City, Texas, Chatham, New Jersey, Belleville, New Jersey and Columbus, Ohio plant sites and technical centers in the United Kingdom, Germany, China and Singapore. ISP's mineral products research and development facility, together with its recently opened customer design and color center, is located at Hagerstown, Maryland.

### **Patents and Trademarks**

ISP owns approximately 405 domestic and 115 foreign patents and owns or licenses approximately 120 domestic and 1,265 foreign trademark registrations related to the business of ISP. ISP does not believe that any single patent, patent application or trademark is material to ISP's business or operations and believes that the duration of its existing patents and patent licenses is satisfactory.

### **Environmental Services**

ISP has received conditional site designation for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property. If ISP is successful in securing the site designation and the necessary permits to construct and operate the hazardous waste facility, ISP intends to develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. ISP estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. ISP anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor.

### **Environmental Compliance**

Since 1970, a wide variety of federal, state and local environmental laws and regulations relating to environmental matters (the "Regulations") have been adopted and amended. By reason of the nature of the operations of ISP and its predecessor and certain of the substances that are, or have been used, produced or discharged by their plants or at other locations, ISP is affected by the Regulations. ISP has made capital expenditures of less than \$3.8 million in each of the last three years in order to comply with the Regulations (which expenditures are included in additions to property, plant and equipment), and anticipates that aggregate capital expenditures relating to environmental compliance in 1996 and 1997 will be approximately \$3.4 million and \$3.5 million, respectively.

The Regulations deal with air and water emissions or discharges into the environment, as well as the generation, storage, treatment, transportation and disposal of solid waste, and the remediation of any releases of hazardous substances to the environment. ISP believes that its manufacturing facilities comply in all material respects with applicable Regulations, and, while it cannot predict whether more burdensome requirements will be adopted in the future, it believes that any potential liability for compliance with the Regulations will not materially affect its business, liquidity or financial position.

ISP believes that its manufacturing facilities are being operated in compliance in all material respects with applicable environmental, health and safety laws and regulations but cannot predict whether more burdensome requirements will be imposed by governmental authorities in the future.

## Employees

At December 31, 1995, ISP employed approximately 2,500 people worldwide. As of December 31, 1995, approximately 680 employees in the United States and Canada were subject to seven union contracts, which are effective in most cases for between two and four-year periods. During 1995, one labor contract expired and was renegotiated. In addition, as of March 1, 1996, three labor contracts were being negotiated, and ISP expects to renegotiate an additional four labor contracts in 1996. ISP believes that its relations with its employees and their unions are satisfactory.

ISP has in effect various benefit plans, which include a non-qualified retirement plan for a group of executives, a capital accumulation plan for its salaried and certain hourly employees, a flexible benefit plan for its salaried employees, a retirement plan for certain of its hourly employees, and group insurance agreements providing life, accidental death, disability, hospital, surgical, medical and dental coverage. In addition, ISP has contracted with various health maintenance organizations to provide medical benefits. ISP and, in many cases, its employees contribute to the cost of these plans.

## Item 2. Properties

The corporate headquarters and principal research and development laboratories of ISP are located at a 100-acre campus-like office and research park owned by a subsidiary of ISP at 1361 Alps Road, Wayne, New Jersey 07470. The premises are subject to a first mortgage.

The principal domestic and foreign real properties either owned by, or leased to, ISP are described below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed below, ISP maintains sales offices and warehouses in the United States and abroad, substantially all of which are in leased premises under relatively short-term leases.

<u>Location</u>	<u>Facility</u>	<u>Product Line</u>
<b>DOMESTIC</b>		
Alabama		
Huntsville .....	Plant*	Advanced Materials
Kentucky		
Calvert City .....	Plant	Specialty Chemicals
Maryland		
Hagerstown .....	Research Center, Design Center, Sales Office	Mineral Products
Missouri		
Annapolis .....	Plant, Quarry	Mineral Products
New Jersey		
Belleville .....	Plant, Sales Office Research Center, Warehouse*	Specialty Chemicals
Bridgewater .....	Sales Office	Specialty Chemicals
Chatham .....	Plant, Sales Office, Research Center, Warehouse*	Specialty Chemicals
Wayne .....	Headquarters, Corporate Administrative Offices, Research Center	Specialty Chemicals, Filter Products and Advanced Materials
Ohio		
Columbus .....	Plant, Sales Office	Fine Chemicals

\* Leased Property

<u>Location</u>	<u>Facility</u>	<u>Product Line</u>
<b>DOMESTIC—(Continued)</b>		
Pennsylvania		
Blue Ridge Summit . . . . .	Plant, Quarry	Mineral Products
Tennessee		
Memphis . . . . .	Plant*, Warehouse*, Distribution Center*	Filter Products
Texas		
Seadrift . . . . .	Plant	Specialty Chemicals
Texas City . . . . .	Plant	Specialty Chemicals
Wisconsin		
Pembine . . . . .	Plant, Quarry	Mineral Products
<b>INTERNATIONAL</b>		
Belgium		
Sint-Niklaas . . . . .	Plant, Sales Office, Distribution Center	Specialty Chemicals and Filter Products
Brazil		
Sao Paulo . . . . .	Plant*, Sales Office*, Distribution Center*	Specialty Chemicals and Filter Products
Canada		
Mississauga, Ontario . . . . .	Plant*, Sales Office*, Distribution Center*	Specialty Chemicals
Oakville, Ontario . . . . .	Plant*	Filter Products
Germany		
Hamburg . . . . .	Plant*	Filter Products
Great Britain		
Guildford . . . . .	European Headquarters*, Research Center*	Specialty Chemicals
India		
Nagpur . . . . .	Plant	Specialty Chemicals
Singapore		
Southpoint . . . . .	Plant*, Sales Office*, Distribution Center*, Asia Pacific Headquarters*, Warehouse*	Specialty Chemicals and Filter Products
<b>Affiliate:</b>		
GAF-Hüls Chemie GmbH		
Marl, Germany . . . . .	Plant, Sales Office	Specialty Chemicals

**\* Leased Property**

ISP believes that its plants and facilities, which are of varying ages and are of different construction types, have been satisfactorily maintained, are in good condition, are suitable for their respective operations and generally provide sufficient capacity to meet production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 1995, ISP made capital expenditures in the amount of \$38.3 million relating to plant, property and equipment.

**Item 3. Legal Proceedings**

**Environmental Litigation**

ISP, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

At most sites, ISP anticipates that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances or materials at the site. ISP estimates that its liability in respect of all Environmental Claims, as of December 31, 1995, will be \$17.4 million, before reduction for insurance recoveries reflected on its balance sheet (discussed below) of \$7 million ("estimated recoveries"). In the opinion of management, the resolution of such matters should not be material to the business, liquidity or financial position of ISP. However, adverse decisions or events, particularly as to the merits of ISP's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site and their insurers, could cause ISP to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, ISP believes that it will receive the estimated recoveries and it may receive amounts substantially in excess thereof. ISP believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims, although ISP's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

The estimated recoveries are based in part upon interim agreements with certain insurers. ISP terminated these agreements in 1995, and on March 8, 1995 GAF commenced litigation on behalf of it and its subsidiaries in the United States District Court for the District of New Jersey seeking amounts substantially in excess of the estimated recoveries. While ISP believes that its claims are meritorious, there can be no assurance that ISP will prevail in its efforts to obtain amounts equal to, or in excess of, the estimated recoveries.

In June 1989, ISP entered into a Consent Order with the New Jersey Department of Environmental Protection (NJDEP) requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee ISP's performance. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. ISP believes, although there can be no assurance, that, taking into account plans for development of the site, it can comply with the NJDEP order at a cost of no more than \$7.5 million (in connection with which ISP anticipates insurance recoveries of approximately \$5 million). See Item 1, "—Environmental Services."

Pursuant to an Order dated September 28, 1990 issued by the United States Environmental Protection Agency (the "EPA"), over 100 potentially responsible parties, including ISP, have agreed to participate in the remediation of a contaminated waste disposal site in Carlstadt, New Jersey. The EPA is evaluating final remedies for the site. Total cleanup costs are unknown but ISP estimates, based on information currently available to it, that the insurance described above will cover a substantial portion of ISP's share of such costs.

#### **Asbestos Litigation Against GAF**

GAF has advised ISP that, as of December 31, 1995, GAF had been named as a defendant in approximately 48,800 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 200,000 other lawsuits involving similar claims, and as a co-defendant in 10 pending lawsuits alleging economic and property damage or other injuries in public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1995, was \$381.9 million (before estimated present value of recoveries from products liability insurance policies of \$187.7 million and related deferred tax benefits of \$72 million). GAF and G-I Holdings have advised ISP that certain components of the asbestos-related liability and the related insurance recoveries have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability as of December 31, 1995, before estimated recoveries from products liability insurance policies, was \$427.1 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the Settlement described below becoming effective and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class) against GAF

and other members of the CCR. The Settlement, if effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement. The favorable resolution of certain insurance related litigation is a condition to the effectiveness of the Settlement. On August 16, 1994, the United States District Court in Philadelphia approved the Settlement holding that the terms of the Settlement are fair to the class as a whole. Certain members of the class have filed objections to the Settlement, and an appeal from certain aspects of the court's ruling was argued before the U.S. Court of Appeals for the Third Circuit on November 21, 1995. While it is impossible to predict with certainty the outcome of any appeal, GAF has advised ISP that it believes that the decision will ultimately be affirmed.

GAF and G-I Holdings have advised ISP that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised ISP that they anticipate that substantially all the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised ISP that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither ISP nor the assets or operations of ISP, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. ISP believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but ISP cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of ISP, and such enforcement could result in a change of control of ISP.

#### **Item 4. *Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders in the fourth quarter of 1995.

#### **Executive Officers**

The following table sets forth the name, age, position and other information with respect to the executive officers of ISP and the executive officers and directors of ISP Chemicals and ISP Technologies.

<u>Name and Position Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
Samuel J. Heyman ..... Director, Chairman and Chief Executive Officer, International Specialty Products Inc.	57	Mr. Heyman has been a director and Chairman and Chief Executive Officer of ISP since its formation and Chief Executive Officer of ISP Chemicals and ISP Technologies since November 1991. Mr. Heyman has been Chairman and Chief Executive Officer of GAF, G Industries and certain of its subsidiaries since April 1989, prior to which he held the same position with GAF's predecessor (the "Predecessor Company") from December 1983 to April 1989. He has been Chairman of GCC and its predecessor since July 1984 and Chairman and a director of BMCA since its formation. Mr. Heyman has been a director of USI since October 1995. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships whose investments include commercial real estate and a portfolio of publicly traded securities.



<u>Name and Position Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
Carl R. Eckardt ..... President and Chief Operating Officer, International Specialty Products Inc.	65	Mr. Eckardt has been a director of ISP since its formation and has been President and Chief Operating Officer of ISP, and Chief Operating Officer of ISP Chemicals and ISP Technologies, since January 1994. Mr. Eckardt was Executive Vice President—Corporate Development of ISP from its formation to January 1994. Mr. Eckardt has been a director and Executive Vice President of GAF since April 1989 and held the same position with the Predecessor Company from January 1987 to April 1989. Mr. Eckardt has been Executive Vice President of G-I Holdings since March 1993. Mr. Eckardt was President of GCC and the Predecessor Company's chemicals division from 1985 to 1987. Mr. Eckardt was Senior Vice President—Worldwide Chemicals and Senior Vice President—International Chemicals of the Predecessor Company from 1982 to 1985 and 1981 to 1982, respectively. Mr. Eckardt joined the Predecessor Company in 1974.
Mark A. Buckstein ..... Executive Vice President, General Counsel and Secretary, International Specialty Products Inc.	56	Mr. Buckstein has been a director, Executive Vice President, General Counsel and Secretary of ISP, G-I Holdings, GAF, G Industries and certain of its subsidiaries, including ISP Chemicals and ISP Technologies, since August 1993, a director and Executive Vice President of BMCA since its formation, and a director and Executive Vice President and General Counsel of USI since October 1995. From July 1992 to April 1993, he was Executive Vice President of the American Arbitration Association. From February 1986 to June 1992, he was a director, Senior Vice President, External Affairs and General Counsel of Trans World Airlines, Inc.
James P. Rogers ..... Senior Vice President— Finance and Treasurer, International Specialty Products Inc.	45	Mr. Rogers has been Senior Vice President-Finance of ISP, ISP Chemicals and ISP Technologies and has been Senior Vice President and Chief Financial Officer of G-I Holdings, GAF and certain of its subsidiaries since November 1993. Mr. Rogers has also served as Treasurer of G-I Holdings, GAF and certain of its subsidiaries since March 1992 and was Vice President of such corporations from March 1992 to October 1993. He was Treasurer of ISP, ISP Chemicals and ISP Technologies from March 1992 through December 1994 and has served as such since September 1995. He has been a director and Senior Vice President and Treasurer of BMCA since its formation, and a director and Senior Vice President of USI since October 1995. From August 1987 to March 1992, Mr. Rogers was Treasurer of Amphenol Corporation, a manufacturer of electronic connectors.

<u>Name and Position Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
James J. Conway ..... Senior Vice President and General Manager, Specialty Chemicals, International Specialty Products Inc.	53	Mr. Conway has been Senior Vice President and General Manager, Specialty Chemicals of ISP since January 1993. He has held the same position and has been a director of ISP Technologies since January 1993. From March 1991 to November 1992, he was President of the Specialty Chemicals Group of Hoechst Celanese Corporation ("HCC"). From April 1990 to March 1991, Mr. Conway was Executive Vice President of the same business of HCC. From January 1989 to March 1990 he was Vice President and General Manager of HCC's Engineering Plastics Division of the Advanced Materials Group and from November 1986 to January 1989 he was General Manager of such division.
Richard B. Olsen ..... Senior Vice President and General Manager, Mineral Products, International Specialty Products Inc.	49	Mr. Olsen has been Senior Vice President and General Manager, Mineral Products of ISP since April 1995. From November 1993 to April 1995, he served as Senior Vice President and Chief Financial Officer of ISP, ISP Chemicals and ISP Technologies. From June 1991 to November 1993, he was Vice President—Finance and Purchasing of ISP, ISP Chemicals and ISP Technologies. He was Vice President, Finance of GCC from April 1989 to November 1993 and held the same positions with the Predecessor Company from June 1986 to April 1989.
James J. Strupp ..... Senior Vice President— Human Resources, International Specialty Products Inc.	52	Mr. Strupp has been Senior Vice President—Human Resources of ISP since May 1991 and Senior Vice President—Human Resources of ISP Chemicals and ISP Technologies since June 1991. From 1987 to May 1991 he was Executive Vice President and Partner with Bastion Industries. Mr. Strupp was Vice President—Human Resources of the Predecessor Company from 1984 to 1987.
Randall R. Lay ..... Vice President and Chief Financial Officer, International Specialty Products Inc.	41	Mr. Lay has been Vice President and Chief Financial Officer of ISP, ISP Chemicals and ISP Technologies since April 1995. From August 1993 to April 1995, he served as Controller, Specialty Derivatives of ISP. From March 1991 to August 1993, he was Director, Financial Planning of Otis Elevator Company and from July 1989 to March 1991 he was Director, Financial Planning of United Technologies Corporation.

- (1) Under ISP's By-laws, each director and executive officer continues in office until ISP's next annual meeting of stockholders and until a successor is elected and qualified.

## PART II

### Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

The information contained in the Annual Report under the heading "Market for Common Stock" is incorporated by reference herein.

**Item 6. Selected Financial Data**

The information contained in the Annual Report under the heading "Selected Financial Data" is incorporated by reference herein.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The information contained in the Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operation" is incorporated by reference herein.

**Item 8. Financial Statements and Supplementary Data**

The following financial statements and supplementary data contained in the Annual Report are incorporated by reference herein:

	<u>Annual Report Page Number</u>
Report of Independent Public Accountants .....	44
Consolidated Statements of Income for the three years ended December 31, 1995 ...	26
Consolidated Balance Sheets as of December 31, 1994 and 1995 .....	27
Consolidated Statements of Cash Flows for the three years ended December 31, 1995 .....	28-29
Consolidated Statements of Stockholders' Equity for the three years ended December 31, 1995 .....	30
Notes to Consolidated Financial Statements .....	31-43
Supplementary Data (Unaudited):	
Quarterly Financial Data (Unaudited) .....	45

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**PART III****Item 10. Directors and Executive Officers of Registrant**

The information relating to the directors of ISP to be contained in the Proxy Statement under the heading "Election of Directors" is incorporated by reference herein. For information relating to the Executive Officers of ISP, ISP Chemicals and ISP Technologies, see "Executive Officers" in Part I of this report.

**Item 11. Executive Compensation**

The information to be contained in the Proxy Statement under the headings "Compensation of Executive Officers of the Company" and "Election of Directors" is incorporated by reference herein.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information to be contained in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference herein.

**Item 13. Certain Relationships and Related Transactions**

The information to be contained in the Proxy Statement under the headings "Election of Directors" and "Certain Transactions" is incorporated by reference herein.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

The following documents are filed as part of this report:

#### (a)(1) Financial Statements:

Financial statements of ISP are incorporated by reference to ISP's Annual Report to Stockholders for the fiscal year ended December 31, 1995. See list on page 12 herein.

#### (a)(2) Financial Statement Schedules:

The following supplementary financial information is filed in this Form 10-K and should be read in conjunction with the financial statements in the Annual Report.

#### INTERNATIONAL SPECIALTY PRODUCTS INC.

		Page Number in this Form 10-K
Report of Independent Public Accountants on Schedules for the years ended		
December 31, 1993, 1994 and 1995 .....		S-1
Consolidated Financial Statement Schedules:		
Schedule II—Valuation and Qualifying Accounts .....		S-2
Supplementary Financial Information—Guarantor Financial Data .....		S-3

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

#### (a)(3) Exhibits

(a) The following documents are filed as part of this report:

- 3.1 —Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1, Registration No. 33-40337 (the "Common Stock Registration Statement")).
- 3.2 —By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).
- 3.3 —Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1, Registration No. 33-44862 (the "9% Note Registration Statement"))).
- 3.4 —By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).
- 3.5 —Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).
- 3.6 —By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).
- 4 —Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).
- 10.1 —Management Agreement, dated as of March 3, 1992 ("Management Agreement"), among GAF, G-I Holdings, G Industries, ISP, GAF Building Materials Corporation and GAF Broadcasting (incorporated by reference to Exhibit 10.5 to ISP's Form 10-K for the year ended December 31, 1993).
- 10.2 —Amendment No. 1, dated as of January 1, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.10 to ISP's Form 10-K for the year ended December 31, 1993).
- 10.3 —Amendment No. 2, dated as of May 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.1 to ISP's Form 10-Q for the quarter ended July 3, 1994).

- 10.4 — Amendment No. 3, dated as of December 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.4 to ISP's Form 10-K for the year ended December 31, 1994 (the "1994 Form 10-K)).
- 10.5 — Amendment No. 4, dated as of December 31, 1995, to the Management Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-4 of G-I Holdings, Registration No. 333-2436).
- 10.6 — Amended and Restated Tax Sharing Agreement, dated as of March 3, 1992, among GAF Corporation, G Industries Corp., ISP and certain subsidiaries of ISP, and Amendment Agreement No. 1 to the Tax Sharing Agreement dated as of July 23, 1992 (incorporated by reference to Exhibit 10.3 to ISP's Form 10-Q for the quarter ended October 2, 1994).
- 10.7 — Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to ISP's Registration Statement on Form S-1, Registration No. 33-40337).\*
- 10.8 — ISP Amended and Restated 1991 Incentive Plan for Key Employees (incorporated by reference to Exhibit 99 to ISP's Registration Statement on Form S-8, Registration No. 33-92518).\*
- 10.9 — Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-4 of G-I Holdings, Registration No. 33-72220 (the "Discount Notes Registration Statement")).\*
- 10.10—Agreement, dated October 5, 1992, between James J. Conway and International Specialty Products Inc. (incorporated by reference to Exhibit 10.9 to the 1994 Form 10-K).\*
- 10.11 —Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).
- 10.12—Form of Assignment and Assumption Agreement between G Industries and ISP (incorporated by reference to Exhibit 10.19 to the 9% Note Registration Statement).
- 10.13—Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 to the 9% Note Registration Statement).
- 10.14—Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the 9% Note Registration Statement).
- 10.15—Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the 9% Note Registration Statement).
- 10.16—Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the 9% Note Registration Statement).
- 10.17—Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the 9% Note Registration Statement).
- 13 — Annual Report to Stockholders for the year ended December 31, 1995, which except for the portions thereof which are expressly incorporated by reference herein, is furnished for the information of the Commission and shall not be deemed filed.
- 21 —Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.
- 23 —Consent of Arthur Andersen LLP.

---

\* Management and/or compensation plan or arrangement.

*(b) Reports on Form 8-K*

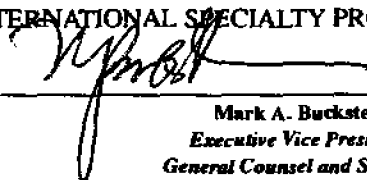
No reports on Form 8-K were filed in the fourth quarter of 1995.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY PRODUCTS INC.



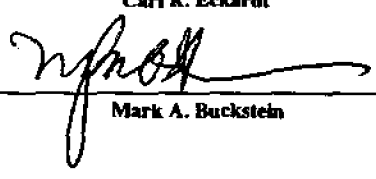
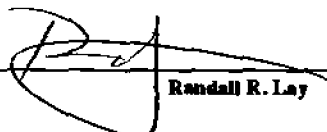
By



Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 <hr/> Samuel J. Heyman	Chairman of the Board and Chief Executive Officer
 <hr/> Carl R. Eckardt	President and Chief Operating Officer; Director
 <hr/> Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
<hr/> Harrison J. Goldin	Director
<hr/> Charles M. Diker	Director
<hr/> Sanford Kaplan	Director
<hr/> Burt Manning	Director
 <hr/> Randall R. Lay	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**INTERNATIONAL SPECIALTY PRODUCTS INC.**

By Mark A. Beckstein  
*Executive Vice President,  
 General Counsel and Secretary*

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chairman of the Board and Chief Executive Officer
<u>Carl R. Eckardt</u>	President and Chief Operating Officer; Director
<u>Mark A. Beckstein</u>	Executive Vice President, General Counsel and Secretary; Director
<u>Harrison J. Goldin</u>	Director
<u>Charles M. Diker</u>	Director
<u>Seaford Kaplan</u>	Director
<u>Burt Manning</u>	Director
<u>Randall B. Lay</u>	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.


INTERNATIONAL SPECIALTY PRODUCTS INC.

By \_\_\_\_\_

Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
_____ Samuel J. Heyman	Chairman of the Board and Chief Executive Officer
_____ Carl R. Eckardt	President and Chief Operating Officer; Director
_____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
_____ Harrison J. Goldin	Director
_____  Charles M. Diker	Director
_____ Sanford Kaplan	Director
_____ Burt Manning	Director
_____ Randall R. Lay	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

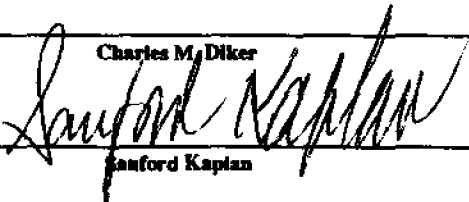
INTERNATIONAL SPECIALTY PRODUCTS INC.

By \_\_\_\_\_

**Mark A. Buckstein**  
*Executive Vice President,  
General Counsel and Secretary*

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
_____ Samuel J. Heyman	Chairman of the Board and Chief Executive Officer
_____ Carl R. Eckardt	President and Chief Operating Officer; Director
_____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
_____ Harrison J. Goldin	Director
_____ Charles M. Diker	Director
_____  Sanford Kaplan	Director
_____ Burt Manning	Director
_____ Randall R. Lay	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.


INTERNATIONAL SPECIALTY PRODUCTS INC.

By \_\_\_\_\_

**Mark A. Buckstein**  
*Executive Vice President,  
General Counsel and Secretary*

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

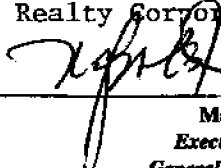
<u>Signature</u>	<u>Title</u>
_____ <b>Samuel J. Heyman</b>	Chairman of the Board and Chief Executive Officer
_____ <b>Carl R. Eckardt</b>	President and Chief Operating Officer; Director
_____ <b>Mark A. Buckstein</b>	Executive Vice President, General Counsel and Secretary; Director
_____ <b>Harrison J. Goldin</b>	Director
_____ <b>Charles M. Diker</b>	Director
_____ <b>Sanford Kaplan</b>	Director
_____  <b>Burt Manning</b>	Director
_____ <b>Randall R. Lay</b>	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, each of the Registrants has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP CHEMICALS INC.  
 ISP FILTERS INC.  
 ISP INVESTMENTS INC.  
 ISP MINERAL PRODUCTS INC.  
 ISP MINERALS INC.  
 ISP REAL ESTATE COMPANY, INC.  
 VERONA INC.  
 BLUEHALL INCORPORATED  
 ISP Realty Corporation



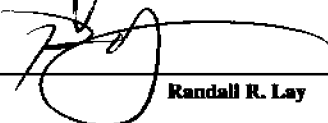
By



**Mark A. Buckstein**  
*Executive Vice President,  
 General Counsel and Secretary*

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

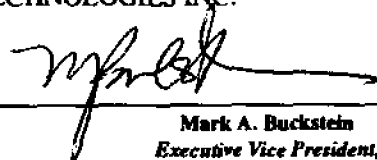
<u>Signature</u>	<u>Title</u>
 _____ <b>Samuel J. Heyman</b>	Chief Executive Officer
 _____ <b>Mark A. Buckstein</b>	Executive Vice President, General Counsel and Secretary; Director
 _____ <b>Randall R. Lay</b>	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP TECHNOLOGIES INC.

By



Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

Signature

Title

  
\_\_\_\_\_  
Samuel J. Heyman

Chief Executive Officer

  
\_\_\_\_\_  
James J. Conway

President and Director

  
\_\_\_\_\_  
Mark A. Buckstein

Executive Vice President, General Counsel  
and Secretary; Director

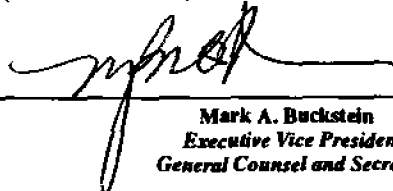
  
\_\_\_\_\_  
Randall R. Lay

Vice President and Chief Financial  
Officer (Principal Financial and  
Accounting Officer)

## SIGNATURES


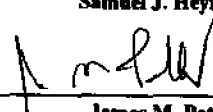

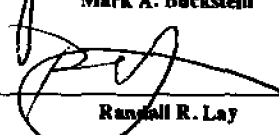
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP (PUERTO RICO) INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.


<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ James M. Potter	President and Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Randall R. Lay	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, each of the Registrants has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.





ISP ENVIRONMENTAL SERVICES INC.  
ISP MANAGEMENT COMPANY, INC.

By

  
\_\_\_\_\_  
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary

Date: March 28, 1996


Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated:

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Herman	Chief Executive Officer
 _____ Carl R. Eckardt	President and Chief Operating Officer; Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Randall R. Lay	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

## SIGNATURES



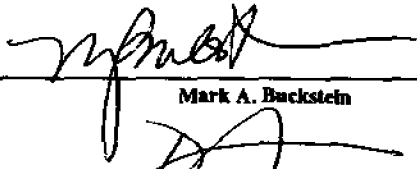
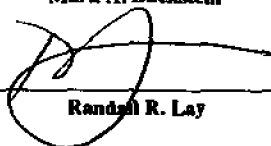
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP GLOBAL TECHNOLOGIES INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary

Date: March 28, 1996

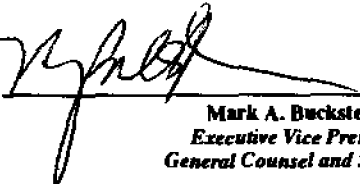
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ William H. Baum	President and Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Randall R. Lay	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

## SIGNATURES



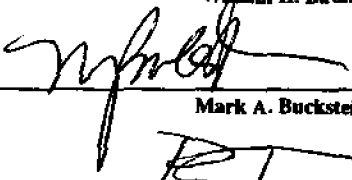

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP INTERNATIONAL CORP.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary

Date: March 28, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 28, 1996, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ William H. Baum	President and Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Randall R. Lay	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)



# ARTHUR ANDERSEN LLP

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

To International Specialty Products Inc.:

We have audited in accordance with generally accepted auditing standards, the financial statements included in International Specialty Products Inc.'s annual report to stockholders and incorporated by reference in this Form 10-K, and have issued our report thereon dated February 20, 1996. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule and supplementary financial information listed in the index on page 13 of this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. This schedule and the supplementary financial information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.



ARTHUR ANDERSEN LLP

Roseland, New Jersey  
February 20, 1996

**INTERNATIONAL SPECIALTY PRODUCTS INC.**  
**VALUATION AND QUALIFYING ACCOUNTS**

**Year Ended December 31, 1995**  
**(Thousands)**

<u>Description</u>	<u>Balance January 1, 1995</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1995</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts . . . . .	\$2,292	\$ 681	\$ 94(a)	\$ 2,879
Reserve for inventory market valuation . . . .	9,631	8,861	4,514	13,978

**Year Ended December 31, 1994**  
**(Thousands)**

<u>Description</u>	<u>Balance January 1, 1994</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1994</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts . . . . .	\$2,313	\$ 325	\$ 346(a)	\$ 2,292
Reserve for inventory market valuation . . . .	8,991	7,052	6,412	9,631

**Year Ended December 31, 1993**  
**(Thousands)**

<u>Description</u>	<u>Balance January 1, 1993</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1993</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts . . . . .	\$2,105	\$ 392	\$ 184(a)	\$ 2,313
Reserve for inventory market valuation . . . .	5,872	5,142	2,023	8,991

Note:

(a) Represents write-offs of uncollectible accounts net of recoveries.

# INTERNATIONAL SPECIALTY PRODUCTS INC.

## SUPPLEMENTARY FINANCIAL INFORMATION

### GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors)

The 9% Senior Notes discussed in Note 7 to Consolidated Financial Statements contained in the Annual Report were issued by ISP Chemicals Inc. and ISP Technologies Inc., domestic subsidiaries of ISP (the "Issuers") and are guaranteed by ISP and all of its domestic subsidiaries (the "Subsidiary Guarantors"). Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and with their subsidiaries constitute all of the domestic subsidiaries of ISP. This financial information should be read in conjunction with ISP's consolidated financial statements and related notes included in the Annual Report. Financial information for ISP's foreign subsidiaries, including its investment in GAF-Hüls, is reflected in the following financial information by the equity method of accounting.

### COMBINED CONDENSED STATEMENTS OF INCOME

#### For the Issuers and the Subsidiary Guarantors

	Year Ended December 31,		
	1995	1994	1993
		(Millions)	
Net sales .....	\$486.0	\$441.6	\$400.4
Costs and expenses:			
Cost of products sold .....	333.7	309.9	276.0
Selling, general and administrative .....	81.2	77.0	83.6
Provision for restructuring .....	—	—	7.6
Goodwill amortization .....	13.2	13.4	13.9
Total costs and expenses .....	428.1	400.3	381.1
Operating income .....	57.9	41.3	19.3
Interest expense .....	(34.3)	(28.6)	(24.4)
Equity in income from foreign subsidiaries and 50% owned joint venture .....	53.3	39.4	31.0
Other income, net .....	22.4	14.3	20.9
Income before income taxes and extraordinary item .....	99.3	66.4	46.8
Income taxes .....	(31.9)	(20.7)	(17.2)
Income before extraordinary item .....	67.4	45.7	29.6
Extraordinary item, net of related income tax benefit .....	—	(1.2)	—
Net income .....	<u>\$ 67.4</u>	<u>\$ 44.5</u>	<u>\$ 29.6</u>

**INTERNATIONAL SPECIALTY PRODUCTS INC.**

**SUPPLEMENTARY FINANCIAL INFORMATION**

**GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors) (Continued)**

**COMBINED CONDENSED BALANCE SHEETS**

**For the Issuers and the Subsidiary Guarantors**

	December 31,	
	1995	1994
	(Millions)	
ASSETS		
Current Assets:		
Cash and investments in trading securities .....	\$ 20.6	\$ 52.6
Investments in available-for-sale securities .....	76.3	14.6
Accounts receivable, net .....	10.4	9.0
Inventories .....	72.5	73.7
Other current assets .....	10.1	9.8
Total Current Assets .....	189.9	159.7
Property, plant and equipment, net .....	449.8	451.5
Excess of cost over net assets of businesses acquired, net .....	430.5	443.7
Advances to and equity in investment in foreign subsidiaries and 50% owned joint venture .....	161.1	134.4
Other assets .....	21.4	29.7
Total Assets .....	\$1,252.7	\$1,219.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt .....	\$ 13.0	\$ —
Current maturities of long-term debt .....	4	.9
Loan payable to related party .....	50.6	41.3
Accounts payable .....	26.3	32.6
Accrued liabilities .....	42.0	36.5
Payable to related parties, net .....	9.4	3.3
Total Current Liabilities .....	141.7	114.6
Long-term debt less current maturities .....	280.3	285.4
Long-term note payable to related party .....	67.2	91.7
Deferred income taxes .....	55.7	73.0
Other liabilities .....	64.6	71.9
Stockholders' Equity .....	643.2	582.4
Total Liabilities and Stockholders' Equity .....	\$1,252.7	\$1,219.0

**INTERNATIONAL SPECIALTY PRODUCTS INC.**

**SUPPLEMENTARY FINANCIAL INFORMATION**

**GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors) (Continued)**

**COMBINED CONDENSED STATEMENTS OF CASH FLOWS**

**For the Issuers and the Subsidiary Guarantors**

	Year Ended December 31,		
	1995	1994	1993
		(Millions)	
Cash and cash equivalents, beginning of year	\$ 52.6	\$ 72.8	\$ 70.7
Cash provided by operating activities:			
Net income	67.4	44.5	29.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	33.6	30.6	26.8
Goodwill amortization	13.2	13.4	13.9
Provision for restructuring	—	—	7.6
Deferred income taxes	(18.8)	(16.5)	(13.2)
(Increase) decrease in working capital items	(7.1)	(.6)	(5.6)
Change in advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	(26.8)	(10.5)	10.7
Increase (decrease) in net payable to related parties	6.1	(.2)	10.2
Change in cumulative translation adjustment	6.9	8.3	(6.3)
Other, net	7.0	(8.3)	4.4
Net cash provided by operating activities	81.5	60.7	78.1
Cash used in investing activities:			
Capital expenditures and acquisitions	(34.4)	(29.2)	(54.0)
Purchases of available-for-sale securities	(327.5)	—	—
Designation of trading securities (to)/from available-for-sale securities	13.3	(16.3)	—
Proceeds from sales of available-for-sale securities	255.6	—	—
Net cash used in investing activities	(93.0)	(45.5)	(54.0)
Cash provided by (used in) financing activities:			
Proceeds (repayments) from sale of accounts receivable	3.7	(1.1)	24.3
Proceeds from termination of interest rate swap agreements	—	—	25.1
Increase (decrease) in short-term debt	13.0	(12.8)	12.7
Repayments of long-term debt	(5.6)	(83.0)	(125.8)
Increase (decrease) in loans from related party	(15.2)	66.3	46.3
Dividends	—	(5.0)	(5.0)
Repurchases of common stock	(16.6)	(.3)	—
Other, net	.2	.5	.4
Net cash used in financing activities	(20.5)	(35.4)	(22.0)
Net change in cash and cash equivalents	(32.0)	(20.2)	2.1
Cash and cash equivalents, end of year	\$ 20.6	\$ 52.6	\$ 72.8

**INTERNATIONAL SPECIALTY PRODUCTS INC.**

**SUPPLEMENTARY FINANCIAL INFORMATION**

**GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors) (Continued)**

The advances to and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the net assets and operating results, respectively, of ISP's wholly owned foreign subsidiaries and its 50% owned joint venture, GAF-Hüls. Domestic operating income includes \$28.4, \$32.1 and \$25 million of profits on sales made by ISP's domestic subsidiaries to its foreign-based subsidiaries for 1995, 1994 and 1993, respectively. Profits earned on sales to the foreign-based subsidiaries which were included in the foreign-based subsidiaries' inventories at the end of each period have been eliminated from domestic operating income and from advances to and equity in investment in foreign subsidiaries.

Dividends received from foreign-based subsidiaries and GAF-Hüls aggregated \$26, \$59.8 and \$43.9 million for 1995, 1994 and 1993, respectively.

## EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>	<u>Page</u>
3.1	—Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1, Registration No. 33-40337 (the "Common Stock Registration Statement")).	
3.2	—By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).	
3.3	—Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1, Registration No. 33-44862 (the "9% Note Registration Statement")).	
3.4	—By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).	
3.5	—Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).	
3.6	—By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).	
4	—Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).	
10.1	—Management Agreement, dated as of March 3, 1992 ("Management Agreement"), among GAF, G-I Holdings, G Industries, ISP, GAF Building Materials Corporation and GAF Broadcasting (incorporated by reference to Exhibit 10.5 to ISP's Form 10-K for the year ended December 31, 1993).	
10.2	—Amendment No. 1, dated as of January 1, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.10 to ISP's Form 10-K for the year ended December 31, 1993).	
10.3	—Amendment No. 2, dated as of May 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.1 to ISP's Form 10-Q for the quarter ended July 3, 1994).	
10.4	—Amendment No. 3, dated as of December 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.4 to ISP's Form 10-K for the year ended December 31, 1994 (the "1994 Form 10-K")).	
10.5	—Amendment No. 4, dated as of December 31, 1995, to the Management Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-4 of G-I Holdings, Registration No. 333-2436).	
10.6	—Amended and Restated Tax Sharing Agreement, dated as of March 3, 1992, among GAF Corporation, G Industries Corp., ISP and certain subsidiaries of ISP, and Amendment Agreement No. 1 to the Tax Sharing Agreement dated as of July 23, 1992 (incorporated by reference to Exhibit 10.3 to ISP's Form 10-Q for the quarter ended October 2, 1994).	
10.7	—Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to ISP's Registration Statement on Form S-1, Registration No. 33-40337).*	
10.8	—ISP Amended and Restated 1991 Incentive Plan for Key Employees (incorporated by reference to Exhibit 99 to ISP's Registration Statement on Form S-8, Registration No. 33-92518).*	
10.9	—Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-4 of G-I Holdings, Registration No. 33-72220 (the "Discount Notes Registration Statement")).*	
10.10	—Agreement, dated October 5, 1992, between James J. Conway and International Specialty Products Inc. (incorporated by reference to Exhibit 10.9 to the 1994 Form 10-K).*	
10.11	—Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).	

<u>Exhibit</u>	<u>Description</u>	<u>Page</u>
10.12	—Form of Assignment and Assumption Agreement between G Industries and ISP (incorporated by reference to Exhibit 10.19 to the 9% Note Registration Statement).	
10.13	—Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 to the 9% Note Registration Statement).	
10.14	—Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the 9% Note Registration Statement).	
10.15	—Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the 9% Note Registration Statement).	
10.16	—Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the 9% Note Registration Statement).	
10.17	—Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the 9% Note Registration Statement).	
13	—Annual Report to Stockholders for the year ended December 31, 1995, which except for the portions thereof which are expressly incorporated by reference herein, is furnished for the information of the Commission and shall not be deemed filed.	38
21	—Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.	89
23	—Consent of Arthur Andersen LLP.	92

---

\* Management and/or compensation plan or arrangement.



EXHIBIT 13



**INTERNATIONAL SPECIALTY PRODUCTS INC.**  
**1995 ANNUAL REPORT**

## *About The Company*

---

International Specialty Products Inc. is one of the world's premier specialty chemicals companies. The Company has approximately 2,500 employees at more than 70 locations, including manufacturing facilities, research laboratories, and sales and customer service offices throughout the world, serving customers in more than 90 countries.

The Company manufactures four major groups of products – specialty chemicals, mineral granules, filter products and advanced materials – holding a significant market share in each of these principal product groups.

ISP produces more than 325 specialty chemicals, which have a broad range of applications, encompassing such markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's products, while often representing a relatively small portion of customers' production costs, generally constitute key ingredients in the end products in which they are used. The business is characterized by an emphasis on technology, research and development, marketing and customer service. The Company believes it has been able to sustain its market share positions for its specialty chemicals by establishing and maintaining long-term relationships with its customers and working closely with

them to develop chemicals tailored to their specific needs.

ISP's mineral products business manufactures ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company's granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

The Company manufactures filter products, consisting of pressure filter vessels, filter bags and filter systems designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders which are used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food and beverage industries.

ISP's stock is traded on the New York Stock Exchange under the symbol "ISP".

# Financial Highlights

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands, except per share amounts)	1995	1994	1993
Net sales	\$ 689,002	\$ 600,047	\$ 548,252
Operating income	\$ 127,096	\$ 99,245	\$ 65,091
EBITDA <sup>(1)</sup>	\$ 188,376	\$ 147,313	\$ 116,916
Income before income taxes and extraordinary item	\$ 106,102	\$ 72,484	\$ 49,823
Income before extraordinary item	\$ 67,375	\$ 45,752	\$ 29,558
Net income	\$ 67,375	\$ 44,515	\$ 29,558
Earnings per common share:			
Income before extraordinary item	\$ .68	\$ .46	\$ .30
Net income	\$ .68	\$ .45	\$ .30

<sup>(1)</sup> EBITDA represents earnings before income taxes and extraordinary item, increased by interest expense, depreciation and goodwill amortization.

## Contents

About the Company	Inside Front Cover
Financial Highlights	1
Chairman's Message	2
Looking Forward	9
Review of Operations	14
Financial Review	20
Board of Directors and Corporate Officers	46
Company Facilities	Inside Back Cover
Shareholder Information	Inside Back Cover

### FELLOW SHAREHOLDERS:

It is with great pleasure that I report to you on an all-time record year at ISP, with per share earnings having increased by more than 50% and operating income by more than 25% over the previous year. ISP finished the year with its eighth consecutive quarter of increased year-to-year operating income and its seventh consecutive quarter of increased year-to-year per share earnings, thereby enabling the Company to enter 1996 with considerable momentum and every prospect for continued double-digit increases this year in operating income and earnings per share.

### 1995 FINANCIAL RESULTS

For the 12-month period ended December 31, 1995, net income was a record \$67.4 million (68 cents per share) compared to \$44.5 million (45 cents per share) in 1994. Net income in 1994 was reduced by an extraordinary charge of \$1.2 million (one cent per share) relating to the refinancing of the Company's bank debt.

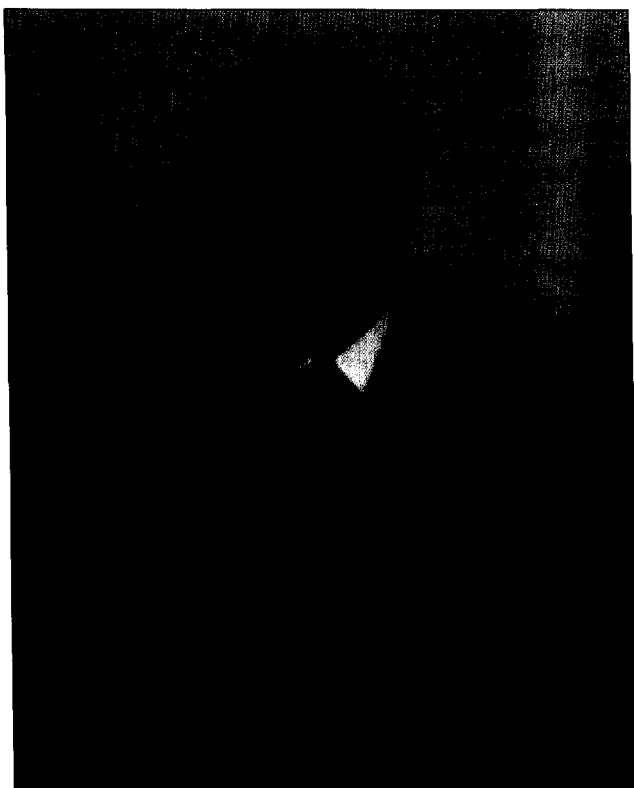
Operating income in 1995 was a record \$127.1 million compared with \$99.2 million in 1994, with sales of \$689 million surpassing 1994 sales by almost 15%. 1995 results were attributable to increased sales in each of the Company's businesses in all geographic regions, together with higher gross profit margins, partially offset by increased selling, general, and administrative expenses resulting in part from costs in connection

with the Company's geographic expansion program.

Operating income in both 1995 and 1994 was reduced by noncash charges of \$21.7 million and \$21.9 million, respectively, resulting from goodwill amortization (\$13.2 million in 1995 and \$13.4 million in 1994) and stepped-up depreciation (\$8.5 million in both periods), associated with the acquisition of the Company's parent, GAF Corporation, in a 1989 management-led buyout. Without such noncash charges, operating income would have been \$148.8 million and \$121.1 million for 1995 and 1994, respectively.

Given the magnitude of the Company's noncash charges, we continue to believe that ISP's results, without adjustment for these accounting charges, are a more accurate reflection of the Company's performance. For the charges are strictly historical in origin and do not result in any respect from additional assets having been acquired by the Company, as would be the case with regard to an acquisition where a company or business is purchased at a price in excess of book value and there is corresponding additional income from the acquired assets to offset the charges. ISP's noncash charges, on the other hand, resulted solely from the change in ownership of the *same* company with the *same* assets from public to private shareholders.

Without these noncash charges, pro forma net income in 1995 was \$86 million (87 cents per share) compared with \$63.3 million



**Samuel J. Heyman**  
Chairman of the Board and Chief Executive Officer

(63 cents per share) in 1994. EBITDA (representing earnings before income taxes and extraordinary item, increased by interest expenses, depreciation and goodwill amortization), another helpful measure for investors in assessing ISP's financial performance, was \$188.4 million in 1995, compared with \$147.3 million in the previous year.

#### **SIGNIFICANT DEVELOPMENTS**

ISP's impressive financial performance tells only part of the story of the Company's success this past year. For equally significant

were ISP's other achievements, which included a substantial upgrading of the quality of its people and organization, continued close attention to costs, acceleration of ISP's corporate-wide reengineering effort, an aggressive geographic expansion program, a substantial increase in the Company's direct sales force, the recent acquisition of a controlling interest in a microcrystalline cellulose manufacturing facility in India, and the continued strengthening of the Company's balance sheet which resulted in the reduction of the Company's ratio of net debt-to-total-capitalization from 37% at the end of 1994 to 30.6% at the end of 1995.

Particularly significant developments were as follows:

#### **(1) *Geographic Expansion***

The Company continued its program this past year, begun in early 1994, to increase the geographic penetration of its business, with particular emphasis on the Asia-Pacific and Latin American regions, having opened in the last two years new sales and marketing operations, or added to its existing presence, in more locations than in any comparable period in the history of the Company. As a result of these efforts, sales in the Asia-Pacific and Latin American regions increased in 1995 over previous levels by 20% and 14%, respectively, the latter despite the economic and political turmoil in Mexico, which is not

an unimportant country for ISP and where our business weathered the storm far better than most.

Having recently opened new offices in Venezuela, Indonesia, China, India, and Turkey, the Company plans to open several additional offices around the world in 1996.

Particularly exciting, I believe, has been the Company's expansion into China where we have opened in the last two years three new sales and marketing offices to add to our previously established office in Shanghai. In addition, ISP established last year a laboratory in Shanghai to provide technical service to its growing customer base and conduct applications development work designed to adapt the Company's product lines to the Chinese market. Our sales in China continue to grow at substantial rates, as we have found the Chinese market particularly receptive to our products for the personal care and beverage markets, and we are optimistic as to further growth there.

ISP substantially augmented over the past year the Company's direct sales force, with particular emphasis on the Asia-Pacific region, so as to reduce its dependence on third-party distributors. This initiative arose out of a comprehensive review of the performance of ISP's distributors all over the world, and in particular the Asia-Pacific region where until last year almost 65% of the Company's Asia-Pacific sales were through independent distributors. As a result, the

Company decided to assign to its own direct sales force a substantial portion of sales formerly made through distributors. Implementation of this initiative, which incidentally includes replacing some distributors with other higher performing ones, began in 1995 and is expected to be completed this year, at which time 80% of our Asia-Pacific business will be handled by the Company's own direct sales force.

In connection with this program, the Company increased its international sales force last year by more than 20%, following incidentally a more than 10% increase in the previous year. While there will always be a role for distributors in our business, we are already finding, in the areas where we have replaced distributors, that our direct sales efforts are yielding increased sales, higher profitability, and a better understanding on our part of our customers and their needs.

## *(2) Reengineering Program*

ISP first undertook a Total Quality Management Process effort with the development in 1994 of a comprehensive quality improvement program for implementation throughout the Corporation. While the initial focus of this reengineering effort was on enhancing customer satisfaction, the emphasis shifted in 1995 to manufacturing cost reductions, capacity expansions, improvements in the Company's commercialization process, and improved

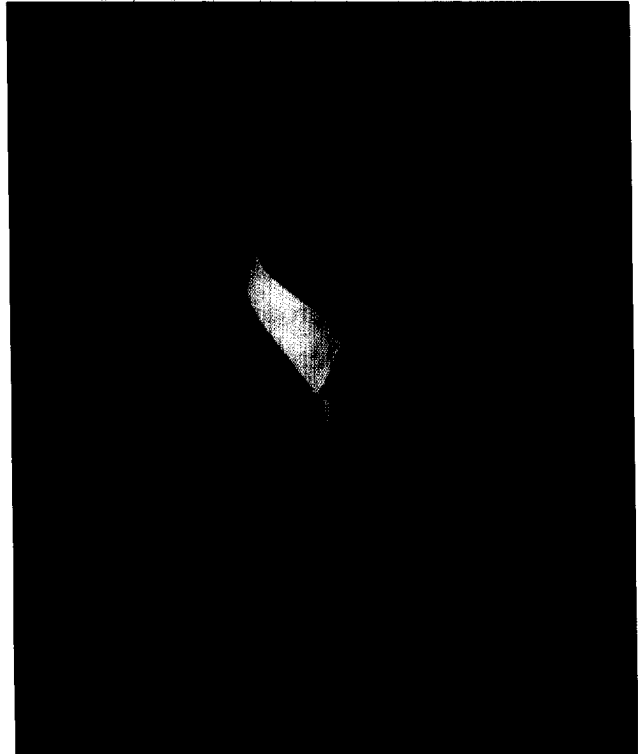
efficiencies in many other aspects of our operations.

ISP currently has more than 80 active Quality Improvement Teams addressing virtually every aspect of its business from the factory floor to administrative functions. These teams succeeded last year in the manufacturing area, for example, in producing very positive results in terms of improved first-pass quality, increased production yields, reductions in off-standard production, and increased productive capacity as a result of shorter cycle times and increased on-line time for our equipment.

As to the financial implications of this program, we identified in early 1995 approximately \$34 million of gross profit improvement opportunities. Because of the fact that implementation of specific action steps to capture these opportunities required a fair amount of time, we realized last year only \$14 million. While we are currently addressing the balance of the \$20 million, we have in the meantime identified another \$20 million of additional opportunities for which we are implementing programs to capture these as well.

While ISP's reengineering effort began quite frankly much later than it should have, and although once begun it has taken longer than expected to accomplish its goals, the good news is that we have not only identified far more opportunities than we originally thought possible, but we have come to believe that this program can make

increasingly significant contributions to the Company's profitability over the next several years.



Carl R. Eckardt  
President and Chief Operating Officer

### *(3) New Products, Applications, and Market Developments*

A significant factor in the Company's sales growth last year was the continued development of its markets as well as the introduction of new products and applications. Several examples of developments which either contributed to last year's results or can be expected to in the future are as follows:



(a) In the Personal Care business unit, we have just recently formed a skin care division to increase the focus of our personal care business on the entire skin care area where we are already a major factor in the sunscreen and cosmetic preservatives markets. In the hair care area, two recently developed products give evidence of considerable market potential:

(i) A new ultraviolet absorber sunscreen, Escalol® HP-610, to be formulated into hair conditioning products and which remains on the hair after rinse-off, is designed to protect the hair from the damaging effects of the sun's rays. Taking advantage of our expertise and technology in the skin and hair care areas, we believe that this unique product will lead to the launch of a generation of products based on this newly developed technology; and

(ii) Among a number of new hair care products ISP has recently brought to market, the Company's Stabileze®, a thickener and stabilizer for hair care formulations, is designed for use in "two-in-one" shampoos (shampoo and conditioner in one product). We believe our product to be superior to the current industry standard as ours offers an improved "feel", and we are optimistic that we can capture a significant share of this market;

(b) ISP's beverage additives business, consisting of its Polyclar® line of products, registered double-digit sales growth in 1995,

with the Asia-Pacific region a particular stand-out, up almost 30%, as a result of increased demand in that part of the world for high quality beer. There are two recent developments which should help to further increase the growth of this business:

(i) While ISP's Polyclar® products have always been recognized as the market leader for their ability as a clarifier to prevent "chill-haze", it has only recently been established that these products also have the potential to stabilize the flavor profile of beer, thereby providing beer with a longer shelf life. And as "product freshness dating" increases in importance as a marketing tactic, beer manufacturers will be able with the use of the Company's products to extend their freshness date; and

(ii) We received regulatory approval last year for the sale of our Polyclar® products in Japan, the fourth largest beer market in the world;

(c) In the pharmaceutical area, the Company recently acquired a majority interest in a microcrystalline cellulose (MCC) manufacturing facility in India. By way of background, ISP is one of the leading suppliers of pharmaceutical excipients, through its Plasdone® and Polyplasdone® products, for use as tablet binders and disintegrants in the wet granulation tablet manufacturing process. A competing tablet manufacturing method, direct compression, uses another binder, microcrystalline

cellulose, and it is the MCC market that is experiencing faster growth in view of its heavier orientation toward generic and over-the-counter drugs. There are now two significant world-wide participants in this \$100 million market, and our new product, to be marketed under the Celex™ brand, should allow us to capture over time a meaningful share of this market; and

(d) ISP's business in the industrial markets performed well this past year as a number of its end-use markets continue to grow at healthy rates. By way of two examples:

(i) Butanediol sales increased substantially last year, primarily as a result of increased demand from plastics manufacturers serving the automotive industry. And while automotive production was soft for much of the year, plastics usage for automotive applications increased by 8% over 1994, with further comparable increases projected over the next several years.

Another important driver of increased butanediol demand arises from the fashion trend to apparel based upon spandex fibers, with sales of spandex fibers into the apparel industry having grown last year by 6%; and

(ii) Another particularly exciting opportunity in the industrial area involves the use of our downstream industrial polymers as gas hydrate inhibitors during the extraction and processing of natural gas. Gas hydrates are water crystals that form under

pressure during processing and are extremely disruptive to the extraction process.

Traditional inhibitors, such as methanol and ethylene glycol, must be used in extremely high quantities, while our polymers, because of their higher efficacy, require only 1% of the amounts currently used for traditional inhibitors. By reducing the amount of material and consequently the costs incurred in connection with transportation to the oil rigs, petroleum processing customers can significantly reduce their operating costs, and we would expect this over time to become a significant market opportunity.

#### PROSPECTS FOR 1996

While we feel good about what we accomplished this past year, there are still admittedly a whole host of areas at the Company where we can improve our performance so as to more fully realize the growth and profit potential of ISP's businesses. Whether in the areas of increased manufacturing efficiencies, new products and applications, the current unsatisfactory profitability of the Company's mineral granules and filters businesses, and I could go on and on, our progress in these and other areas in the coming year will have no small effect on the Company's performance in 1996 and beyond.

The good news is that the Company already has underway action plans in these and many other areas, and that we entered

1996 with a good deal of forward momentum, thereby providing cause for optimism that ISP can achieve this year another record breaking performance.

#### ACKNOWLEDGEMENTS

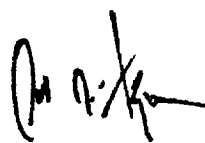
ISP's excellent performance this past year came as a result of the exemplary efforts of so many, and I am delighted to publicly express my appreciation to our customers, suppliers, lenders, and outside professionals, all of whom played not unimportant roles in the tremendous improvement in the Company's fortunes over the last two years.

And the same goes in extra measure for my fellow employees. ISP is indeed fortunate to have so many able employees who bring to the discharge of their responsibilities not only abundant energy but an overriding concern for our Company's welfare - all as demonstrated by their actions and

accomplishments. While I have expressed my respect and affection for our employees so many times, I am pleased that these pages afford me again the opportunity to communicate my deep appreciation to all our employees for their many achievements this past year.

We look forward in 1996 to a year of continued accomplishment.

Sincerely,



Samuel J. Heyman  
Chairman of the Board  
and Chief Executive Officer

March 11, 1996

ISP recently issued its Company Mission Statement, underscoring its commitment to Customers, Employees and Shareholders. ISP's Mission Statement also outlines the Company's strategic objectives as follows:

### Research and Development

***We will continue to devote substantial financial and human resources to the Company's research, development, and technical service efforts. ISP will maintain product leadership through the development and commercialization of new products and applications and the continuous improvement of our existing products and processes.***

New products and applications are recognized to be strategic to ISP's continued growth. To this end, we have accelerated ISP's R&D and commercialization efforts and expect to increase the Company's R&D expenditures for 1996 by more than 15%. As a result of the Company's commitment to its R&D effort, ISP has developed and brought to market more than 50 new products and applications in the last three years.

By way of just several examples:

(i) The Company recently developed a new application for its high molecular weight polymers for the growing personal computer printer market. These polymers increase the compatibility of ink-jet inks, papers, and transparencies, thereby improving the quality of the finished print product;

(ii) A particularly exciting opportunity involves the use of our downstream industrial

polymers as gas hydrate inhibitors during the extraction and processing of natural gas. Our polymers, because of their high efficacy, require only 1% of the amounts currently used for traditional inhibitors, thus our petroleum processing customers can significantly reduce their operating costs; and



*ISP's research and development efforts have brought to market more than 50 new products and applications in the last three years.*

(iii) The Company has developed for the hair care market a new high performance polymer, Omnirez™ 2000, to meet volatile organic compound (VOC) requirements. VOC restrictions have been implemented in the United States to reduce ozone generation in the lower atmosphere and a 55% requirement is expected to be effective in 1998.

## Capital Improvement Programs

*We will invest sufficient capital in new property, plant, and equipment so as to enable the Company to expand capacity and therefore satisfy customer demand.*

ISP has invested more than \$200 million over the last five years in new plant and equipment, in part to either expand its manufacturing capacity to meet growing customer demand or continue to improve the quality of its products. ISP's Strategic Capital Planning Team ensures the effective long-term utilization of the Company's existing facilities and coordinates the timely installation of new facilities.

By way of illustration, several examples of recent capital improvement programs are:

(i) At ISP's manufacturing facility in Calvert City, Kentucky, we recently installed new reactors and modified our polymer drying systems in order to meet the growing demand for our high molecular weight products;

(ii) Through the installation of a new reaction system at our ISP/Van Dyk facility in Belleville, New Jersey, we increased the capacity of its Escalol® line of sunscreens by more than 60%; and

(iii) At ISP's Texas City, Texas facility, the Company recently established a state-of-the-art carbon treatment facility for use in the production of low molecular weight polymers for the pharmaceutical industry.



*ISP's Strategic Capital Planning Team ensures the effective long-term utilization of the Company's existing facilities and coordinates the timely installation of new facilities.*

## Total Quality Management Improvement Program

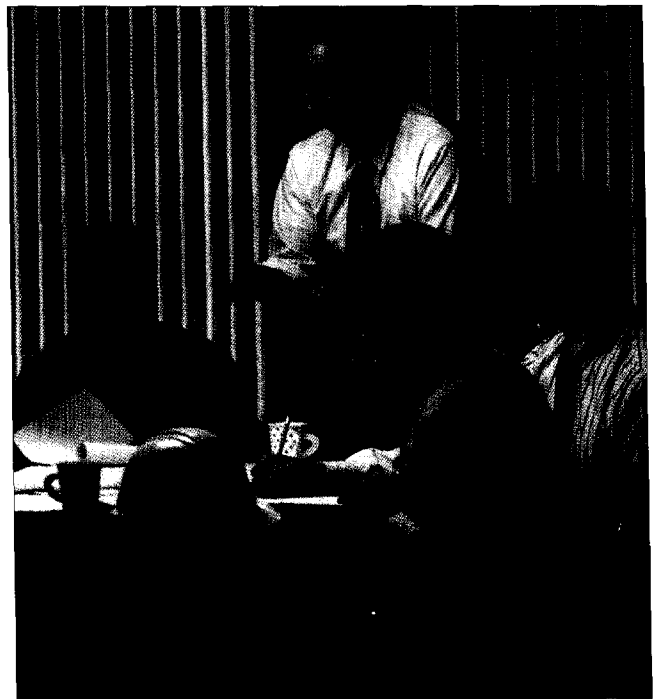
*We will accelerate the Company's Continuous Improvement Program to enhance customer satisfaction, improve the quality of our products, and increase efficiency with regard to all aspects of our work effort.*

ISP is committed to the Total Quality Management Improvement Process as a way of doing business. This reengineering effort, begun in 1994, initially focused on enhancing customer satisfaction through a better understanding of the needs of ISP's customers, quickly translating those needs and expectations into rapid delivery and continuing to improve the quality of its customer service operations. The emphasis of the program shifted in 1995 to manufacturing cost reductions, capacity expansions, improvements in the Company's commercialization process for new products so as to enhance our ability to get to the market faster, as well as improved efficiencies in many other aspects of our operations.

The Company captured, in connection with this program, \$14 million of gross profit improvement opportunities last year, and has identified an additional \$40 million of cost savings and incremental profit opportunities

which it is currently addressing with specific action plans.

ISP currently has operating more than 80 Quality Improvement Teams designed to address every aspect of the Company's business. By way of just several examples, the Company last year increased its Van Dyk sunscreen production capacity, significantly reduced cycle times for Gafquat® polymer production and debottlenecked its polyvinyl pyrrolidone (PVP) polymer manufacturing processes.



*ISP's Continuous Improvement Program includes the efforts of more than 80 Quality Improvement Teams covering every aspect of our business.*

## Geographic Expansion Program

*We will expand our specialty chemicals business by increased geographic penetration, with special emphasis on the Company's international businesses. In order to further the geographic expansion of ISP's business, we will continue to not only open new sales and marketing operations in areas of the world where there are attractive opportunities, but so also we will add to the Company's existing presence where we can increase market penetration.*

ISP continues to expand the reach of its business around the world. Over just the last two years, the Company has opened more new international sales and marketing operations than in any comparable period in recent history. For example, ISP in the last two years opened offices in Caracas, Venezuela, Jakarta, Indonesia, Bombay, India, and Guangzhou and Chengdu, China. In connection with this geographic expansion, ISP also increased its international sales force last year by more than 20%.

ISP has plans for further geographic expansion in 1996, with the anticipated opening of several additional locations.



*ISP continues to pursue opportunities for geographic expansion including the Far East where the Company has opened offices in China at Beijing, Chengdu, Guangzhou, and Shanghai.*

## External Growth Through Strategic Acquisitions

*We will seek to generate external growth through strategic acquisitions. ISP's acquisition strategy is focused on niche type acquisitions, with particular emphasis on the non-cyclical industries on which we are focused - cosmetics and personal care, pharmaceutical and health-related products, and food and beverages.*

ISP will continue to seek strategic acquisitions designed to be synergistic, in that they will either complement existing product lines, involve products lines which can be expanded by use of the Company's technology, marketing expertise or worldwide distribution network, further the geographic reach of ISP's businesses, or increase current market shares.

ISP's position as an innovator in the personal care industry was enhanced through its acquisitions of Sutton Laboratories, a leading manufacturer of cosmetic preservatives, and Van Dyk, a worldwide supplier of high value-added intermediate products for the skin care market.

The ISP Fine Chemicals business, acquired in 1993, features a modern facility in Columbus, Ohio, for pharmaceutical processing under stringent FDA conditions. The business produces a broad range of proprietary pharmaceutical intermediates, biological buffers, pheromones, and bulk active pharmaceuticals. ISP Fine Chemicals also offers custom manufacturing services for the pharmaceutical, biotechnology, agricultural, and chemical process industries.

The Company's filters products business expanded its global manufacturing capability

with the acquisition last year of Linden Welding Company Ltd. in Oakville, Ontario, and Oswald Stein GmbH in Hamburg, Germany, both manufacturers of filter vessels.

ISP recently acquired a majority interest in Chemfields Pharmaceuticals Pvt. Ltd., in Nagpur, India, a manufacturer of microcrystalline cellulose (MCC). ISP's existing line of pharmaceutical excipients, Plasdone® and Polyplasdone®, are used in the wet granulation process for tablet manufacture, while MCC is utilized in the rapidly growing direct compression process, the latter benefiting from its heavier orientation toward fast growing generic and over-the-counter drugs. The Company's new MCC product will be marketed under the CELEX™ brand name.



*ISP is focused on niche type acquisitions such as Chemfields Pharmaceuticals Pvt. Ltd., whose MCC complements its existing line of excipients for tableting.*



International Specialty Products Inc. is one of the world's premier specialty chemicals companies offering a broad line of high value-added specialty products, including specialty chemicals, mineral products, filter products, advanced materials, and fine chemicals. The Company has 19 domestic and international manufacturing facilities, including a joint-venture company in Germany, GAF-Hüls Chemie GmbH, and a joint-venture company in India, Chemfields Pharmaceuticals Pvt. Ltd., and markets its products in more than 90 countries throughout the world.

### **SPECIALTY CHEMICALS**

ISP manufactures more than 325 specialty chemicals having numerous applications in consumer and industrial products. The Company uses proprietary technology to convert a number of raw materials, through a chain of one or more processing steps, into increasingly complex and higher value-added chemical products to meet specific customer requirements. A substantial portion of the Company's specialty chemicals, which include intermediates, solvents, vinyl ethers, and polymers, are derived from acetylene, and the Company believes it produces the broadest line of acetylene derivatives available in the world. ISP is also a major producer of specialty chemicals for use as cosmetic and industrial preservatives through its ISP Sutton Laboratories, and as ingredients for skin care products including sunscreen intermediates, emollients, and pearlescent pigments through its ISP Van Dyk business.

ISP's specialty chemicals business is organized by end-use industries into three worldwide, market-oriented business units: Personal Care; Pharmaceutical, Agricultural, and Beverage; and Industrial.

### **Personal Care**

ISP produces a wide range of intermediates for the personal care industry, providing thousands of well-known hair care, skin care, toiletry and cosmetic products with their high performance characteristics. ISP organized its Personal Care business unit in late 1995 into two distinct divisions, Hair Care and Skin Care, in order to better focus the Company's efforts in these markets.

#### **Hair Care**

The Company is a leading manufacturer of hair fixatives through its Gantrez®, Gafquat®, and PVP/VA family of products, which provide hair sprays, mousses, and gels with their strong holding power.

ISP's state-of-the-art laboratory in Wayne, New Jersey, which includes elaborate facilities for direct consumer testing of hair care products, has played an important role in the recent development of several significant new products. For example, the Company launched in 1995 its Escalol® HP-610, a unique ultraviolet absorber for formulation in hair conditioning products and designed to remain on the hair after rinse-off in order to protect the hair from the damaging effects of the sun's rays. The Company is currently in the process of introducing its Omnirez™ 2000, a high performance hair spray polymer with an optimized molecular weight that will enable manufacturers to meet ever stricter regulatory requirements pertaining to the reduction of volatile organic compounds (VOCs) in the United States. This product is a follow-on to our successful launch of Gantrez® A-425 hair spray polymer for use by manufacturers to meet previously enacted 80% VOC restrictions in the U.S.

### *Skin Care*

Through the development of several important new products and the acquisition of both the Van Dyk and Sutton Laboratories businesses, ISP has significantly strengthened its presence in the skin care market.

The Company's Van Dyk business, now provides a broad range of skin care products, including ultraviolet absorbers, waterproofing agents, pigments, emollients, and emulsifiers. Van Dyk's ultraviolet absorbers serve as the main active ingredient in many of today's most popular sunscreens, and are finding application in many other skin care related areas such as lipsticks and facial creams.

ISP's Sutton Laboratories produces specialty preservatives, which are marketed worldwide predominately to the cosmetics and personal care industries for use primarily in skin care products such as bath and shower products, infant care, eye makeup, facial makeup and after-shave preparations, and nail products. Sales of Sutton products have increased significantly since ISP acquired the business in 1989, with Sutton's growth having been primarily fueled by expansion of its overseas business. Over the last several years, the Company has commercialized LiquaPar® Oil, a unique liquid preservative, whose effectiveness and ease of use has ensured the success of this product in a broad range of biocide applications; and the Integra® family of industrial preservatives designed for use in liquid laundry detergents, fabric softeners, dishwashing liquids, wet pulp processing, and water-based paints and coatings.

ISP, through an alliance with United-Guardian, Inc., is now marketing a line of personal care products in the Asia-Pacific region, Eastern Europe and selected countries in Western Europe. The product line includes

Lubrajel®, a water soluble lubricant and moisturizer used in a full range of skin care and related pharmaceutical applications.

### *Pharmaceutical, Agricultural, and Beverage*

ISP's products for the pharmaceutical, agricultural, and beverage industries provide superior performance characteristics for a substantial number of end-use products while, at the same time, enabling these products to meet increasingly strict worldwide regulatory requirements.

#### *Pharmaceutical*

In the pharmaceutical area, ISP products serve as key ingredients in tablets, injectables, cough syrups, antiseptics, toothpaste, denture adhesives and other oral preparations. ISP's Plasdone® and Polyplasdone® excipients function respectively as the binding agent that holds tablets together and the disintegrant which helps release the active ingredient in a controlled manner. Sales of Plasdone® and Polyplasdone® excipients continued their strong growth in 1995 as a result of increased penetration of new and existing geographic markets as well as the wider use of these products in generic drugs. In order to expand its participation in the pharmaceutical excipient market, ISP recently acquired a majority interest in Chemfields Pharmaceuticals Pvt. Ltd., a manufacturer of microcrystalline cellulose (MCC) in India.

#### *Agriculture*

ISP is a leading producer of inert ingredients for the agricultural industry, where the Company's solvent and polymer products are used for the formulation of safer and more effective agricultural applications. ISP's Agrimer® family of polymers and

copolymers are, for example, integral components in formulations such as granules, tablets, and seed coatings, which serve not only to make these formulations safer and more effective but so also reduce the amount of pesticide required for effective pest control. Two surface active solvents which offer unique surfactant properties, AgsolEx® 8 and AgsolEx® 12, first received EPA approval in 1994 and have enjoyed ever increasing sales since market introduction.

### ***Beverage***

ISP has been a major participant in the beverage industry for many years, where ISP's leading product, Polyclar®, serves the function of ensuring the quality and extending the shelf life of beer, wine, and fruit juices. Polyclar® Super R has achieved a high level of customer acceptance for its effectiveness in not only extending the useful life of the end-use product but reducing filtration times. The Company received Japanese regulatory approval in 1995 for use of Polyclar® in Japan's beer industry, the world's fourth largest beer market.

### ***Industrial***

ISP's acetylene-derivative specialty chemicals business produces numerous specialty polymers and vinyl ethers for use in a wide range of industrial markets such as coatings, adhesives, electronics, and metal working, in addition to intermediate and solvent products such as butanediol and N-methyl pyrrolidone (NMP) whose primary applications are for use in high performance plastics, lubricating oil and chemical extraction, electronics cleaning, and coatings.

The Company continued last year to

increase its penetration of the household, industrial and institutional cleaning market, especially in the European and Asia-Pacific markets, with sales of its Gaftex® polymers growing substantially as a result of an application using Gaftex® as a dye transfer inhibitor in laundry detergents to prevent the deposition of fugitive colors in mixed color washes.

The Company is developing several new industrial applications for its versatile polymer product line. For example, in response to the burgeoning personal computer printer market, ISP's high molecular weight polymers are being used to increase compatibility between ink-jet inks, papers and transparencies in order to improve print quality. The Company has developed another application whereby its polymers are being used to inhibit the formation of gas hydrate crystals that form during the processing of natural gas. ISP's product is used at significantly lower levels than traditional gas hydrate inhibitors, thereby enabling the natural gas processor to considerably reduce its operating costs.

ISP has brought to the market over the past several years a family of new environmentally-friendly products, known as Engineered Solvents, to replace chlorinated and other volatile solvents, for use in a variety of industries for cleaning, stripping and degreasing. Sales of the Company's Engineered Solvents continued to increase this past year, and are expected to grow at even higher rates as regulatory requirements affecting chlorinated solvents become ever more stringent.

## MINERAL PRODUCTS

ISP's mineral products business manufactures ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company is one of only two major suppliers of colored roofing granules in North America, with its mineral roofing granules being sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

Mineral products sales have benefited from an industry trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which require approximately 60% more granules than traditional three-tab lightweight roofing shingles. To meet anticipated increased demand, the Company recently completed a significant capacity expansion at its production facility in Blue Ridge Summit, Pennsylvania.

ISP's mineral products business is one of the nation's leading producers of a fine granular material, ISP Original Fast Dry™, the same material having been formerly marketed by an ISP customer under the name Har-Tru® for use in the construction of fast dry, clay-like tennis courts. The Company has been for many years the major supplier of this tennis court material in the northeastern region of the United States and is now in the process of expanding its market coverage to the southeastern part of the country as well.

## FILTER PRODUCTS

ISP's filter products business produces complete filter systems, under the name "GAF Filter Systems", consisting of pressure filter vessels and filter bags designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum, municipal water, and food and beverage industries. ISP is a leading worldwide supplier of bag filtration equipment, and its strategy over the past several years has been to develop new, higher value-added bag filtration products, expand its share of the filter vessels market, and increase the geographic penetration of its business in the United States as well as the Asia-Pacific and Latin American regions of the world.

The Company realized in 1995 the benefits of the recent expansion of the production capacity of its filter vessel manufacturing facility in São Paulo, Brazil, and the opening of a new facility in Singapore for the manufacture of bag filtration products. The Company continued to increase its worldwide manufacturing presence in 1995 with two acquisitions: a Canadian filter vessel manufacturer serving the North American market, and a German filter vessel manufacturer covering the European market.

The Company has been one of the more innovative leaders in the bag filtration industry having introduced in recent years a number of higher value-added bag filtration products such as the Accurate® 1 absolute micron rated, high efficiency bag filter, which accommodates higher flow rates and has a longer service life than equivalent-rated

cartridge filters. The Accurate® 1 product is gaining wide acceptance in such diverse liquid filtration applications as paints and coatings; beer, vinegar and edible oils; and a wide variety of process chemicals. The Company has also introduced a new range of POXL™ and PEXL™ Extended Life Filter bags, which enables its customers to substantially reduce their costs through waste minimization, reduced maintenance, and the extension of useful filter life. These new products offer significant growth potential for ISP's filters business, as they satisfy the needs of its customers for cost effective filtration and waste disposal minimization.

#### **ADVANCED MATERIALS**

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders, sold under the Company's trademark, Micropowder®, for use in a number of applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. In addition, the Company's FDA-approved Ferronyl® iron has been widely accepted as an iron supplement in multi-vitamins and other pharmaceutical products and is widely regarded by medical experts as safer for these uses than iron salts.

ISP's Advanced Materials business markets a growing range of unique and innovative products, including RAD-SURE®, radiation-sensitive labels which indicate whether hospital blood bags have been properly irradiated, DOSE-MAP®, a product for measuring the radiation distribution of blood devices, and PERM® and GAFCHROMIC® processless electron recording films for a variety of instant imaging, data recording and medical

dosimetry applications. Using its unique processless film technology, ISP's Advanced Materials Group, in conjunction with E-Systems Inc., continued to work on an important U.S. Government contract for the development of a novel ultraviolet imaging system, which was awarded to ISP after a competition with several major film companies.

#### **FINE CHEMICALS**

ISP Fine Chemicals produces a variety of fine chemicals sold to the pharmaceutical, biotechnology, agricultural, and performance polymers markets. Its broad range of products includes bulk pharmaceuticals, pharmaceutical intermediates, biological buffers, which are used by biotechnology companies in tissue culture media for the production of new pharmaceuticals, and pheromones, which are insect attractants and insect sex hormones. These products are manufactured at the Company's technologically sophisticated manufacturing facility located in Columbus, Ohio.

ISP Fine Chemicals also offers custom manufacturing services for the pharmaceutical, biotechnology, agricultural, and chemical process industries at the highly versatile Columbus plant, providing custom processing capabilities for complex, multi-step chemical reactions while continuing to expand its production capabilities for bulk drugs and pharmaceutical intermediates.

#### **INTERNATIONAL OPERATIONS**

As a result of the Company's continued penetration of existing overseas markets and expansion into new ones, ISP's international sales have grown at an average annual compounded rate of more than 15% over the

past ten years and now constitute more than 55% of the Company's total specialty chemical sales. This has been accomplished by the continued development of an experienced, technically trained international direct sales force; the opening of new marketing and sales offices in a number of countries in recent years, including Argentina, China, Hungary, India, Indonesia, Poland, Russia, Turkey, Venezuela, etc., and through the development of an export business in countries such as Chile, Colombia, Israel, the Philippines, and Vietnam.

Virtually all ISP's specialty chemical and filter product lines are now sold internationally, and approximately 80% of ISP's revenues outside the United States are currently generated by the Company's own direct sales force, with the balance of its sales made through a worldwide network of experienced ISP agents and distributors.

#### QUALITY AND TECHNOLOGY

Over the last several years, ISO 9002 certification, an internationally accepted hallmark of quality management and assurance, has been attained at four of the Company's principal manufacturing facilities in Calvert City, Kentucky, Chatham, New Jersey, Texas City, Texas, and Sea Drift, Texas, as well as at its affiliate, GAF-Hüls Chemie GmbH in Marl, Germany. In addition, in 1995, the Company received ISO 9002 certification in 1995 for its Sint-Niklaas, Belgium, filter bag production facility.

ISP intensified the Company's commitment to its Total Quality Management Process effort in 1994 with the development of a comprehensive quality improvement program for implementation throughout the Corporation. The primary focus in 1994 was

on enhancing customer satisfaction through a better understanding of the needs of ISP's customers, quickly translating those needs and expectations into rapid delivery, and continuing to improve the quality of its manufacturing and customer service operations. This focus continued in 1995. To this end, more than 80 process improvement and breakthrough teams were established at all levels of the Company to address quality and productivity issues in these areas.

Although this work is still ongoing, the teams have already succeeded in producing very positive results in terms of improved first pass quality, increased productive capacity, and reduced operating costs as a result of a whole host of operating efficiencies. The increases in manufacturing capacity this past year, achieved through debottlenecking and capital projects involving fairly minimal capital, have enabled the Company to defer for another year its plans to build a European manufacturing facility.

ISP's quality improvement program will continue to address the Company's manufacturing processes and the quality of its products in 1996, as well as a broad range of other Company operations and activities such as distribution, management information systems, payroll processing, paperwork, etc. We believe that there continue to be numerous opportunities at ISP for further cost savings, increased efficiency, and improved quality with regard to all aspects of the work effort of our Company and its employees.

## *Financial Review*

---

Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Selected Financial Data	25
Consolidated Statements of Income	26
Consolidated Balance Sheets	27
Consolidated Statements of Cash Flows	28
Consolidated Statements of Stockholders' Equity	30
Notes to Consolidated Financial Statements	31
Report of Independent Public Accountants	44
Supplementary Data	45

# *Management's Discussion and Analysis of Financial Condition and Results of Operations*

INTERNATIONAL SPECIALTY PRODUCTS INC.

## **1995 COMPARED WITH 1994**

International Specialty Products Inc. (the "Company") recorded net income in 1995 of \$67.4 million (68 cents per share) compared with net income of \$44.5 million (45 cents per share) for 1994. Net income in 1994 included an extraordinary charge of \$1.2 million (one cent per share) related to the refinancing of the Company's bank debt.

The results for 1995 reflected higher operating income (up \$27.9 million), \$3.4 million higher equity income from the GAF-Hüls joint venture ("GAF-Hüls"), and a \$6.8 million increase in other income, partially offset by a \$4.4 million increase in interest expense.

Sales for 1995 were \$689 million compared with \$600 million for 1994. The 15% sales growth was attributable to increased sales in all product lines, particularly specialty chemicals (up \$74.5 million), and reflected double-digit sales increases in all regions of the world. The sales increase was primarily the result of increased sales volumes in all product lines and higher selling prices, and, to a lesser extent, the favorable effect (\$14.3 million) of the weaker U.S. dollar relative to other currencies in certain areas of the world.

Operating income for 1995 increased by 28% to \$127.1 million compared with \$99.2 million for 1994. The increase was attributable to higher sales in all product lines and improved gross margins (up 1.1 percentage points) due primarily to higher selling prices, partially offset by higher manufacturing costs. Operating income for the specialty chemicals business increased by \$25.6 million (32%), reflecting the above factors. Selling, general and administrative expenses for 1995 increased \$14.4 million (12%) over 1994 due to operating expenses associated with higher sales levels, however, such expenses as a percent of sales have decreased from 23% in 1993 to 19.9% and 19.5% in 1994 and 1995, respectively, primarily as a result of the Company's cost reduction and productivity programs announced in 1993. The Company's operating margin improved from 16.5% in 1994 to 18.4% in 1995.

Of the \$27.9 million increase in operating income in 1995, domestic operating income increased by \$16.6 million, due primarily to higher selling prices and increased volumes for specialty chemicals, as well as improved gross margins, operating income for the European region increased by \$12.2 million as a result of higher sales levels and improved gross margins, operating income for the Asia-Pacific region increased by \$8 million with higher sales volumes partially offset by increased expenses associated with the Company's geographic expansion program, and operating income from other foreign operations declined by \$1.7 million as higher sales were offset by additional expenses attributable to the geographic expansion program and a nonrecurring 1994 benefit resulting from the Brazilian government's economic program. See Note 12 to Consolidated Financial Statements.

Interest expense for 1995 was \$33.1 million, an increase of \$4.4 million from \$28.7 million in 1994. The increase was primarily the result of higher interest rates.

Other income (expense), net, comprises net investment income, foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating and nonrecurring items of income and expense. Other income was \$6.7 million in 1995 compared with other expense of \$.1 million in 1994. The increase in 1995 was due principally to higher net investment income (up \$10.5 million). See Note 1 to Consolidated Financial Statements.

## **1994 COMPARED WITH 1993**

In 1994, the Company recorded net income of \$44.5 million (45 cents per share) compared with net income of \$29.6 million (30 cents per share) for 1993. Net income in 1994 included an extraordinary charge of \$1.2 million (one cent per share) relating to the refinancing of bank debt, while net income in 1993 reflected a retroactive income tax provision of \$2.9 million, representing the effect of a 1% increase in the Federal corporate income tax rate on the Company's



# *Management's Discussion and Analysis of Financial Condition and Results of Operations* continued

net deferred tax liability as of December 31, 1992, and a pre-tax provision of \$13.8 million primarily related to the Company's cost reduction program.

The results for 1994 reflected higher operating income (up \$34.1 million), partially offset by a \$4.2 million increase in interest expense and a reduction of \$7.3 million in other income (expense), net.

Sales for 1994 were \$600 million, a 9% increase compared with \$548.3 million for 1993. The sales growth reflected increased sales in most product lines, primarily specialty chemicals (up 11%) and filters (up 12%), in all regions of the world, mainly due to higher volumes and, to a lesser extent, a favorable foreign exchange effect of \$4.1 million.

Operating income for 1994 was \$99.2 million compared with \$65.1 million for 1993. The improvement was attributable to increased sales volumes and lower selling, general and administrative expenses, and the absence of the \$13.8 million restructuring charge mentioned above, partially offset by lower gross profit margins due mainly to higher manufacturing costs for specialty chemicals (up approximately \$8 million primarily as a result of raw material cost increases), and lower operating income from mineral products. Selling, general and administrative expenses for 1994 were \$119.7 million, down 5% from 1993, primarily as a result of the Company's cost reduction and productivity programs. The \$13.8 million restructuring charge in 1993 was established to cover costs associated with severance and related benefits, professional fees, relocations, and discontinuation of products. Management believes that the Company's cost reduction and productivity programs have resulted in significantly reduced operating expenses. The remaining liability as of December 31, 1995 was approximately \$4.7 million and is anticipated to be expended over the next several years.

Of the \$34.1 million increase in operating income in 1994, domestic operating income increased by \$22 million due primarily to higher export sales to all regions, lower operating expenses and the absence of the prior year's restructuring charge, operating income from Europe increased by \$7.5 million, and operating income from other foreign operations increased by \$4.6 million, mainly in the Asia-Pacific region, in each case after giving effect to a portion of

the \$13.8 million restructuring charge in 1993. See Note 12 to Consolidated Financial Statements.

Interest expense for 1994 was \$28.7 million, an increase of \$4.2 million from \$24.5 million in 1993. The increase was due primarily to higher interest rates and, to a lesser extent, higher outstanding borrowings.

Other expense was \$.1 million in 1994 compared with other income of \$7.2 million in 1993. The decrease in 1994 was due primarily to lower net investment income (down \$6.7 million). See Note 1 to Consolidated Financial Statements.

## LIQUIDITY AND FINANCIAL CONDITION

During 1995, the Company generated cash from operations of \$105 million and reinvested \$139.3 million for capital programs and net purchases of available-for-sale and held-to-maturity securities, for a net cash outflow of \$34.3 million before financing activities. Cash from operations in 1995 included a \$7.9 million reduction in the cash surrender value of Company-owned insurance policies and \$6.1 million from transactions with related parties, primarily reflecting additional taxes payable to G-I Holdings Inc. pursuant to the Tax Sharing Agreement discussed in Note 3 to Consolidated Financial Statements. Cash invested in additional working capital totaled \$5.1 million during 1995. This principally reflected a \$10.9 million increase in receivables due to higher sales levels, partially offset by \$2.5 million higher payables and accrued liabilities.

Net cash provided by financing activities in 1995 was \$2.7 million, primarily reflecting \$36.2 million of additional short-term borrowings and \$3.8 million from an accounts receivable financing (see Note 4 to Consolidated Financial Statements), partially offset by \$5.6 million in repayments of long-term debt, a \$15.2 million reduction in borrowings from an affiliate, and a \$16.6 million expenditure in connection with the Company's common stock repurchase program. The Company's program involves open market repurchases from time to time of up to a total of 2,500,000 shares of its common stock. The repurchased shares are held for general corporate purposes, including issuance of shares

under the Company's stock option plan. As of December 31, 1995, 2,151,200 shares of the Company's common stock had been repurchased pursuant to the program.

As a result of the foregoing factors, cash and cash equivalents decreased by \$31.6 million during 1995 to \$31.3 million (excluding \$114.1 million of available-for-sale securities and \$4.6 million of held-to-maturity securities).

The Company invests primarily in hedged utility programs, international and domestic convertible arbitrage, and securities of companies involved in acquisition or reorganization transactions, including at times, common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short positions. With respect to its equity positions, the Company is exposed to the risk of market loss. See Note 1 to Consolidated Financial Statements.

The Company announced in the second quarter of 1995 that its Board of Directors had eliminated the 2½ cents per share semi-annual dividend on the Company's common stock.

In October 1994, the Company refinanced its \$400 million revolving credit facility and entered into a four-year \$250 million revolving credit/letter of credit facility and a \$150 million renewable one-year revolving credit facility which has been renewed for one year (the "Credit Agreements"). As of December 31, 1995, loans in the amount of \$40.8 million and letters of credit aggregating \$9.6 million were outstanding under the long-term Credit Agreement. The Credit Agreements permit the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to \$60 million, of which \$2.3 million had been utilized as of December 31, 1995.

Borrowings by the Company, including those under the Credit Agreements, are subject to the application of certain financial covenants contained in such agreements and the indenture relating to the Senior Discount Notes due 1998 issued by G-I Holdings Inc. ("G-I Holdings"), the indirect owner of 82.3% of the Company's common stock. As of December 31, 1995, the Company was in compliance

with such covenants, and the application of such covenants would not have restricted the amounts available for borrowing under the Credit Agreements. The Credit Agreements and the indenture relating to the Company's 9% Senior Notes limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. See Note 7 to Consolidated Financial Statements.

As of December 31, 1995, the Company's scheduled repayments of long-term debt for the twelve months ending December 31, 1996 aggregated \$4 million.

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analysis of additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors, the Company intends to proceed with the project by the end of 1997. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, including entering into foreign exchange contracts in order to hedge its exposure. See Note 1 to Consolidated Financial Statements.

The parent corporations of the Company, including GAF Corporation ("GAF"), G-I Holdings, G Industries Corp. and GAF Chemicals Corporation ("GCC"), are essentially holding companies without independent businesses or operations and, as such,

## *Management's Discussion and Analysis of Financial Condition and Results of Operations* continued

---

are dependent upon the cash flow of their subsidiaries, including the Company, in order to satisfy their obligations, including the asbestos-related claims mentioned below and certain potential tax liabilities including tax liabilities relating to Rhône-Poulenc Surfactants and Specialties, L.P. See Notes 3 and 14 to Consolidated Financial Statements. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations, or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Given, first, the ownership structure of the Company and the fact that GCC would currently suffer certain adverse tax consequences in the event that it were to own less than 80% of the outstanding shares of the Company's common stock and, second, the present level of the Company's stock price, GCC has no current intention to sell shares of the Company's common stock. As earnings continue to be generated by the Company, thereby reducing or eliminating such adverse tax consequences, and the Company's stock price appreciates, GCC may at some future time consider selling additional shares of the Company's common stock.

For information with respect to income taxes, see Note 3 to Consolidated Financial Statements.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance

that the Company's business will not be affected by inflation in the future.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters. See Note 14 to Consolidated Financial Statements for further information.

GAF has advised the Company that as of December 31, 1995, GAF had been named as a defendant in approximately 48,800 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber and as a co-defendant in 10 pending lawsuits alleging economic and property damage or other injuries in public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. For further information regarding asbestos-related claims against GAF, see Note 14 to Consolidated Financial Statements.

# Selected Financial Data

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Dollars in thousands, except per share amounts)	Year Ended December 31,				
	1995	1994	1993	1992	1991
Operating data:					
Net sales	\$ 689,002	\$ 600,047	\$ 548,252	\$ 570,757	\$ 525,786
Operating income	127,096	99,245	65,091	107,664	121,852
Interest expense	33,091	28,676	24,500	30,595	52,693
Income before income taxes	106,102	72,484	49,823	85,782	75,682
Income before extraordinary item and cumulative effect of accounting change	67,375	45,752	29,558	57,182	50,646
Net income	67,375	44,515	29,558	50,113	50,646
Earnings per common share:					
Income before extraordinary item and cumulative effect of accounting change	\$ .68	\$ .46	\$ .30	\$ .57	\$ .56
Net income	\$ .68	\$ .45	\$ .30	\$ .50	\$ .56
Dividends per common share	\$ —	\$ .05	\$ .05	\$ .05	\$ —
Other data:					
Operating margin	18.4%	16.5%	11.9%	18.9%	23.2%
EBITDA <sup>(1)</sup>	\$ 188,376	\$ 147,313	\$ 116,916	\$ 155,693	\$ 165,447
Depreciation	35,960	32,753	28,737	25,610	23,247
Goodwill amortization	13,223	13,400	13,856	13,706	13,825
Capital expenditures and acquisitions	38,934	31,098	62,858	70,464	34,422

	December 31,				
	1995	1994	1993	1992	1991
Balance Sheet data:					
Total working capital	\$ 142,550	\$ 121,803	\$ 78,263	\$ 179,310	\$ 94,715
Total assets	1,312,938	1,251,304	1,243,315	1,270,418	1,151,175
Long-term debt	347,491	377,106	367,722	493,025	413,746
Stockholders' equity	643,244	582,368	534,012	516,999	483,797

<sup>(1)</sup> EBITDA represents earnings before income taxes, extraordinary item and cumulative effect of accounting change, increased by interest expense, depreciation and goodwill amortization.

# Consolidated Statements of Income

INTERNATIONAL SPECIALTY PRODUCTS INC.

	Year Ended December 31,		
(Thousands, except per share amounts)	1995	1994	1993
Net sales	\$ 689,002	\$ 600,047	\$ 548,252
Costs and expenses:			
Cost of products sold	414,672	367,746	329,517
Selling, general and administrative	134,011	119,656	125,961
Provision for restructuring	—	—	13,827
Goodwill amortization	13,223	13,400	13,856
Total costs and expenses	561,906	500,802	483,161
Operating income	127,096	99,245	65,091
Interest expense	(33,091)	(28,676)	(24,500)
Equity in earnings of joint venture	5,413	2,034	2,051
Other income (expense), net	6,684	(119)	7,181
Income before income taxes and extraordinary item	106,102	72,484	49,823
Income taxes:			
Current year provision	(38,727)	(26,732)	(17,320)
Adjustment of deferred tax liability for change in tax rate	—	—	(2,945)
Income before extraordinary item	67,375	45,752	29,558
Extraordinary item, net of \$733 income tax benefit	—	(1,237)	—
Net income	\$ 67,375	\$ 44,515	\$ 29,558
Earnings per common share:			
Income before extraordinary item	\$ .68	\$ .46	\$ .30
Extraordinary item	—	(.01)	—
Net income	\$ .68	\$ .45	\$ .30
Weighted average number of common shares outstanding	98,613	99,888	99,889

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Balance Sheets

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	December 31,	
	1995	1994
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 14,080	\$ 20,127
Investments in trading securities	17,183	42,737
Investments in available-for-sale securities	114,099	14,583
Investments in held-to-maturity securities	4,618	—
Accounts receivable, trade, less reserve of \$2,879 and \$2,292	60,327	55,585
Accounts receivable, other	12,356	9,977
Inventories	107,969	108,787
Other current assets	12,920	14,572
Total Current Assets	343,552	266,368
Property, plant and equipment, net	475,550	477,109
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$91,825 and \$78,602	430,458	443,681
Other assets	63,378	64,146
Total Assets	\$ 1,312,938	\$ 1,251,304
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Short-term debt	\$ 36,199	\$ —
Current maturities of long-term debt	398	890
Loan payable to related party	50,597	41,341
Accounts payable	41,727	47,984
Accrued liabilities	56,538	46,625
Payable to related parties, net	9,429	3,336
Income taxes	6,114	4,389
Total Current Liabilities	201,002	144,565
Long-term debt less current maturities	280,254	285,397
Long-term note payable to related party	67,237	91,709
Deferred income taxes	55,743	72,955
Other liabilities	65,458	74,310
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value per share; 20,000,000 shares authorized	—	—
Common stock, \$.01 par value per share; 300,000,000 shares authorized:		
99,888,646 shares issued	999	999
Additional paid-in capital	504,544	504,572
Treasury stock, at cost - 2,122,395 and 49,000 shares	(16,718)	(327)
Excess of purchase price over adjusted historical cost of the predecessor company shares owned by GAF's stockholders	(63,483)	(63,483)
Retained earnings	199,634	132,259
Cumulative translation adjustment and other	18,268	8,348
Total Stockholders' Equity	643,244	582,368
Total Liabilities and Stockholders' Equity	\$ 1,312,938	\$ 1,251,304

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	Year Ended December 31,		
	1995	1994	1993
Cash and cash equivalents, beginning of year	\$ 62,864	\$ 82,786	\$ 81,679
Cash provided by operating activities:			
Net income	67,375	44,515	29,558
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	35,960	32,753	28,737
Goodwill amortization	13,223	13,400	13,856
Provision for restructuring	-	-	13,827
Deferred income taxes	(18,809)	(16,494)	(13,542)
(Increase) decrease in working capital items	(5,105)	(12,010)	2,868
(Increase) decrease in other assets	56	(2,311)	6,586
Increase (decrease) in other liabilities	(1,343)	(2,090)	1,847
Increase (decrease) in net payable to related parties	6,093	(247)	10,234
Change in cumulative translation adjustment	6,918	8,306	(6,291)
Other, net	586	(2,884)	340
Net cash provided by operating activities	104,954	62,938	88,020
Cash used in investing activities:			
Capital expenditures and acquisitions	(38,934)	(31,098)	(62,858)
Purchases of available-for-sale securities	(366,200)	-	-
Purchases of held-to-maturity securities	(5,592)	-	-
Designation of trading securities (to)/from available-for-sale securities	13,303	(16,267)	-
Proceeds from sales of available-for-sale securities	257,197	-	-
Proceeds from held-to-maturity securities	974	-	-
Net cash used in investing activities	(139,252)	(47,365)	(62,858)
Cash provided by (used in) financing activities:			
Proceeds (repayments) from sale of accounts receivable	3,768	(1,052)	24,284
Proceeds from termination of interest rate swap agreements	-	-	25,069
Increase (decrease) in short-term debt	36,199	(12,848)	10,637
Repayments of long-term debt	(5,635)	(83,048)	(125,820)
Increase (decrease) in loans from related party	(15,216)	66,263	46,317
Dividends	-	(4,994)	(4,994)
Repurchases of common stock	(16,614)	(327)	-
Other, net	195	511	452
Net cash provided by (used in) financing activities	2,697	(35,495)	(24,055)
Net change in cash and cash equivalents	(31,601)	(19,922)	1,107
Cash and cash equivalents, end of year	\$ 31,263	\$ 62,864	\$ 82,786

# Consolidated Statements of Cash Flows continued

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	Year Ended December 31,		
	1995	1994	1993
<b>Supplemental Cash Flow Information:</b>			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	\$ (10,892)	\$ (14,161)	\$ 2,499
Inventories	1,029	(5,087)	4,306
Other current assets	2,105	1,688	1,239
Accounts payable	(5,895)	8,187	5,036
Accrued liabilities	8,389	(4,162)	(896)
Income taxes	159	1,525	(9,316)
Net effect on cash from (increase) decrease in working capital items	\$ (5,105)	\$ (12,010)	\$ 2,868

\* Working capital items exclude cash, short-term investments, short-term debt and payables to related parties. Working capital acquired in connection with acquisitions is reflected within "Capital expenditures and acquisitions." The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the (increase) decrease in accounts receivable shown above does not reflect the cash proceeds from the sale of the Company's domestic trade accounts receivable (see Note 4); such proceeds are reflected in cash from financing activities.

<b>Cash paid during the year for:</b>			
Interest (net of amount capitalized)	\$ 36,776	\$ 31,140	\$ 23,969
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement)	44,489	44,499	38,703

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.



# Consolidated Statements of Stockholders' Equity

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	Capital Stock and Additional Paid-in Capital	Treasury Stock at Cost	Cumulative Translation Adjustment and Other	Retained Earnings
December 31, 1992	\$ 505,571	\$ —	\$ 6,737	\$ 68,174
Net income	—	—	—	29,558
Translation adjustment	—	—	(6,291)	—
Dividends declared (\$.05 per common share)	—	—	—	(4,994)
Adjustment of unfunded pension liability	—	—	(1,260)	—
December 31, 1993	\$ 505,571	\$ —	\$ (814)	\$ 92,738
Net income	—	—	—	44,515
Translation adjustment	—	—	8,306	—
Dividends declared (\$.05 per common share)	—	—	—	(4,994)
Repurchases of common stock - 49,000 shares	—	(327)	—	—
Unrealized loss on available-for-sale securities, net of \$621 income tax benefit	—	—	(1,063)	—
Adjustment of unfunded pension liability	—	—	1,919	—
December 31, 1994	\$ 505,571	\$ (327)	\$ 8,348	\$ 132,259
Net income	—	—	—	67,375
Translation adjustment	—	—	6,918	—
Repurchases of common stock - 2,102,200 shares	—	(16,614)	—	—
Change in unrealized gain on available-for-sale securities, net of \$1,198 income tax effect	—	—	2,618	—
Issuances under stock option plan - 28,805 shares	—	223	—	—
Excess of cost of treasury stock sold over proceeds	(28)	—	—	—
Adjustment of unfunded pension liability	—	—	384	—
December 31, 1995	\$ 505,543	\$ (16,718)	\$ 18,268	\$ 199,634

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

International Specialty Products Inc. (the "Company") is an 82.3% owned subsidiary of GAF Chemicals Corporation ("GCC"), which is a wholly owned subsidiary of G Industries Corp. ("G Industries"), which in turn is a wholly owned subsidiary of G-I Holdings Inc. ("G-I Holdings"). G-I Holdings is a wholly owned subsidiary of GAF Corporation ("GAF"). The Company is a multinational manufacturer of a wide range of specialty chemicals, mineral products, filter products and advanced materials. See Notes 11 and 12 for financial information concerning the Company's industry segments and foreign and domestic operations.

## Note

### 1

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Principles of Consolidation*

All subsidiaries are consolidated and intercompany transactions have been eliminated.

##### *Financial Statement Estimates*

The preparation of financial statements requires management to make certain estimates. Actual results could differ from those estimates. In the opinion of management, the financial statements herein contain all adjustments necessary to present fairly the financial position and the results of operations and cash flows of the Company for the periods presented. All adjustments are of a normal recurring nature. The Company has a policy to review the recoverability of long-lived assets and identify and measure any potential impairments. The Company does not anticipate any changes in management estimates that would have a material impact on operations, liquidity or capital resources.

##### *Investment in Joint Venture*

The Company's 50% ownership of GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture which operates a chemical manufacturing plant in Germany, is accounted for by the equity method. The Company's equity in the net assets of GAF-Hüls was \$41.2 and \$33.5 million as of December 31, 1995 and 1994, respectively, and is included in "Other assets". Dividends received by the Company from GAF-Hüls totaled \$.3, \$4.4 and \$5.4 million for 1995, 1994 and 1993, respectively.

##### *Short-term Investments*

The Company carries its short-term investments at market value. For securities classified as "trading" (including short positions), unrealized gains and losses are reflected in income. For securities classified as "available-for-sale", unrealized gains (losses), net of income tax effect, are included in a separate component of stockholders' equity, "Cumulative translation

adjustment and other", and amounted to \$1.6 and (\$1.1) million as of December 31, 1995 and 1994, respectively. Investments classified as held-to-maturity are carried at amortized cost in the Consolidated Balance Sheet.

"Other income (expense), net", includes \$16.5 and \$6.2 million of net realized and unrealized gains on securities in 1995 and 1994, respectively, and \$10.9 million of net realized gains in 1993. The determination of cost in computing realized gains and losses is based on the specific identification method.

During the fourth quarter of 1995, the Company redesignated certain equity securities held long (which are offsets against short positions in certain other securities), with a fair market value of \$18.1 million, as "trading" and recorded unrealized gains on such securities, through the date of redesignation, in the amount of \$2.1 million as "Other income".

As of December 31, 1995 and 1994, the market value of the Company's equity securities held long was \$132.2 and \$57.3 million, respectively, and the Company had \$22 and \$13.1 million, respectively, of short positions in common stocks, based on market value. With respect to its investments in securities, the Company is exposed to the risk of market loss.

The Company considers its short-term investments in equity and debt securities classified as "trading" to be cash equivalents.

##### *Inventories*

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first-out) method.

##### *Property, Plant and Equipment*

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized during the period of construction as part of the cost of property, plant and equipment.

##### *Foreign Exchange Contracts*

The Company enters into forward foreign exchange instruments with off-balance-sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its firm or anticipated purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge firm purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Gains and losses on instruments used to hedge anticipated purchases are recognized within "Other income (expense), net".

Forward contract agreements require the Company

and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The market value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1995 and 1994, the equivalent dollar value of outstanding forward foreign exchange contracts was \$183.1 and \$110.3 million, respectively, and the amount of deferred gains and losses on such instruments was immaterial at each of such dates. All forward contracts are in major currencies with highly liquid markets and mature within one year. The Company uses quoted market prices to determine the gain or loss on its outstanding forward exchange contracts. The U.S. dollar equivalent of foreign exchange contracts outstanding as of December 31, 1995 as a hedge of non-local currency loans was \$25.6 million, representing 100% of the Company's foreign currency exposure with respect to such loans.

The Company continually monitors its risk from the effect of foreign currency fluctuations on its operations and on the derivative products used to hedge its risk. The Company utilizes real-time, on-line foreign exchange data and news as well as evaluation of economic information provided by financial institutions. Mark-to-market valuations are made on a regular basis. Hedging strategies are approved by senior management before being implemented.

#### **Foreign Currency Translation**

Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are translated at year-end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Cumulative translation adjustment and other", and amounted to \$17.5 and \$10.6 million as of December 31, 1995 and 1994, respectively. Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in "Other income (expense), net".

#### **Excess of Purchase Price Over Adjusted Historical Cost of Predecessor Company Shares**

Stockholders' equity reflects a reduction of \$63.5 million which arose from a management-led buyout in March 1989 of the predecessor company to GAF (the

"Acquisition"), because certain members of the management group owned shares of the predecessor company's common stock before the Acquisition and own shares of GAF after the Acquisition. Accordingly, a step-up in asset values to fair value as required by the purchase method of accounting (which was applied to the Acquisition) does not apply to their shares.

#### **Excess of Cost Over Net Assets of Businesses Acquired ("Goodwill")**

Goodwill, which arose principally from the Acquisition, is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

#### **Debt Issuance Costs**

Debt issuance costs are amortized to expense over the life of the related debt.

#### **Research and Development**

Research and development costs are charged to operations as incurred and amounted to \$21.9, \$20.3 and \$21.2 million for 1995, 1994 and 1993, respectively.

#### **Note**

### **2**

#### **PROVISION FOR RESTRUCTURING**

In the fourth quarter of 1993, the Company recorded a pre-tax provision of \$13.8 million, primarily related to the Company's cost reduction program announced in October 1993.

#### **Note**

### **3**

#### **INCOME TAXES**

Income tax (provision) benefit consists of the following:

(Thousands)	Year Ended December 31,		
	1995	1994	1993
Federal:			
Current	\$ (48,955)	\$ (36,055)	\$ (29,555)
Deferred	17,794	16,051	15,726
Total Federal	(31,161)	(20,004)	(13,829)
Foreign - current	(6,432)	(6,019)	(2,984)
State and local:			
Current	(2,149)	(1,152)	(1,268)
Deferred	1,015	443	761
Total state and local	(1,134)	(709)	(507)
Income tax provision	\$ (38,727)	\$ (26,732)	\$ (17,320)

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision

reflected in the Consolidated Statements of Income are as follows:

	Year Ended December 31,		
(Thousands)	1995	1994	1993
Statutory tax provision	\$ (37,136)	\$ (25,369)	\$ (17,438)
Impact of:			
Foreign operations	3,633	1,657	3,116
Nondeductible good-will amortization	(4,628)	(4,690)	(4,849)
Percentage depletion	1,824	1,684	1,868
Other, net	(2,420)	(14)	(17)
Income tax provision	\$ (38,727)	\$ (26,732)	\$ (17,320)

The components of the net deferred tax liability are as follows:

	December 31,	
(Thousands)	1995	1994
Deferred tax liabilities related to:		
Property, plant and equipment	\$ 90,854	\$ 103,294
Other	6,019	2,582
Total deferred tax liabilities	96,873	105,876
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(14,099)	(24,480)
Deferred income	(19,912)	(6,694)
Foreign tax credits not yet utilized under the Tax Sharing Agreement	(3,326)	(3,230)
Other	(10,389)	(4,660)
Total deferred tax assets	(47,726)	(39,064)
Net deferred tax liability	49,147	66,812
Deferred tax assets reclassified to other current assets	6,596	6,143
Noncurrent deferred tax liability	\$ 55,743	\$ 72,955

The Company and each of its domestic subsidiaries have entered into an agreement (the "Tax Sharing Agreement") with GAF and G Industries under which the Company is obligated to pay to G Industries an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own separate Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes - i.e., losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses) - only at the time such attributes reduce the Federal income tax liability of GAF and its subsidiaries (the "GAF consolidated group"), and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the GAF consolidated group. In general, subject to the foregoing limitations, unused tax attributes will carry forward for use in reducing amounts payable by the Company to G Industries in future years. Subject to certain exceptions, actual payment for such attributes will be made by G Industries to the Company only when GAF receives an actual refund of tax from the Internal Revenue

Service or, under certain circumstances, when GAF no longer owns more than 50% of the Company. Foreign tax credits not utilized by GAF will be refunded by G Industries to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration. The net deferred tax liability is ultimately payable to G Industries.

Under certain circumstances, the provisions of the Tax Sharing Agreement result in the Company having a greater current tax liability thereunder than it would have had if it (and its domestic subsidiaries) had filed its own separate Federal income tax return. Moreover, under the Tax Sharing Agreement, the Company and each domestic subsidiary are responsible for any taxes that would be payable by reason of any adjustment to the tax returns of GAF or its subsidiaries, for years prior to adoption of the Tax Sharing Agreement, relating to the business or assets of the Company or any of its domestic subsidiaries. The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, GAF makes all decisions with respect to all matters relating to taxes of the GAF consolidated group.

As members of the GAF consolidated group, the Company and each of its domestic subsidiaries are severally liable for all Federal income tax liabilities of every member of the GAF consolidated group, including tax liabilities not related to the business or assets of the Company and its domestic subsidiaries, although the Company has been indemnified by the other members of the GAF consolidated group for tax liabilities not related to the business or assets of the Company and its domestic subsidiaries.

In connection with Rhône-Poulenc Surfactants and Specialties, L.P. (the "Surfactants Partnership"), GCC has recorded a deferred tax liability in the amount of \$131.4 million, which is reflected as a liability on the consolidated balance sheet of G-I Holdings. Payment of this liability (subject to reduction to reflect utilization of the tax attributes of GAF and its subsidiaries) is not expected earlier than 1999 under present circumstances. In certain circumstances, including if GCC were to dispose of property received by it in connection with its retirement from the Surfactants Partnership, GCC could be required to satisfy this liability earlier than 1999. G Industries has assumed, and G Industries and GAF have agreed to jointly and severally indemnify the Company against, such tax liability. The Company is a member of the same consolidated group as GCC and, subject to such indemnification, would be severally liable for any tax liability imposed in connection with the Surfactants Partnership should GCC, G Industries and GAF be unable to satisfy such liability. GAF has advised the Company that, in the event the tax liability becomes payable, GAF believes that it will have access to sufficient funds to satisfy this liability if so required. As

of December 31, 1995, the stockholder's equity of G-I Holdings was a deficit of \$1.7 million. See Note 10 for information regarding related party transactions.

**Note  
4**

**SALE OF ACCOUNTS RECEIVABLE**

In June 1993, the Company sold its domestic trade accounts receivable, without recourse, for a maximum of \$25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. As of June 30, 1995, the agreement was extended for one year on substantially the same terms and conditions, and the maximum purchase amount was increased to \$27 million. The excess of accounts receivable sold over the net proceeds received is included in "Accounts receivable, other". The effective cost to the Company varies with commercial paper rates and is included in "Other income (expense), net".

**Note  
5**

**INVENTORIES**

At December 31, 1995 and 1994, \$56.2 and \$49.4 million, respectively, of domestic inventories were valued using the LIFO method. Inventories consist of the following:

	December 31,	
(Thousands)	1995	1994
Finished goods	\$ 71,431	\$ 69,748
Work in process	20,540	21,082
Raw materials and supplies	18,634	19,900
Total	110,605	110,730
Less LIFO reserve	(2,636)	(1,943)
Inventories	\$ 107,969	\$ 108,787

**Note  
6**

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following:

	December 31,	
(Thousands)	1995	1994
Land and land improvements	\$ 69,504	\$ 69,109
Buildings and fixtures	80,880	78,808
Machinery and equipment	438,579	422,795
Construction in progress	46,547	36,938
Total	635,510	607,650
Less accumulated depreciation	(159,960)	(130,541)
Property, plant and equipment, net	\$ 475,550	\$ 477,109

See Note 14 for information regarding capital leases.

**Note  
7**

**LONG-TERM DEBT**

Long-term debt consists of the following:

	December 31,	
(Thousands)	1995	1994
9% Senior Notes due 1999	\$200,000	\$ 200,000
Borrowings under revolving credit facility	40,800	45,000
Industrial revenue bond	-	1,830
Obligation on mortgaged property due 1999	38,125	38,125
Obligations under capital leases (Note 14)	1,727	1,332
Total long-term debt	280,652	286,287
Less current maturities	(398)	(890)
Long-term debt less current maturities	\$280,254	\$ 285,397

In connection with the issuance of the 9% Senior Notes due 1999 (the "9% Notes"), the Company entered into interest rate swap agreements ("swaps") with banks in an aggregate notional principal amount of \$200 million. In 1993, the Company terminated the swaps, resulting in gains of \$25.1 million, and entered into new swaps. The gains were deferred and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of the new swaps, the effective interest cost to the Company of the 9% Notes varies at a fixed spread over LIBOR. Based on the fair value of the swaps at December 31, 1995 and 1994, the Company would have incurred losses of \$2.8 and \$22.1 million, respectively, representing the estimated amount that would be payable by the Company if the swaps were terminated at such dates. The estimated fair value of the 9% Notes as of December 31, 1995 and 1994 was \$214.6 and \$192.6 million, respectively.

The Company may be considered to be at risk, to the extent of the costs of replacing such swaps at current market rates, in the event of nonperformance by counterparties. However, since the counterparties are major financial institutions, the credit ratings of which are continually monitored by the Company, the risk of such nonperformance is considered by the Company to be remote.

In October 1994, the Company refinanced its \$400 million revolving credit/letter of credit facility and entered into a four-year \$250 million revolving credit/letter of credit facility and a \$150 million renewable one-year revolving credit facility which has been renewed for one year (the "Credit Agreements"). Borrowings under the Credit Agreements bear interest at a floating rate (6.17% on December 31, 1995). In

connection with the refinancing of the bank facility, the Company recorded an extraordinary charge of \$1.2 million (after an income tax benefit of \$.7 million), representing the write-off of deferred financing fees related to the previous bank credit agreement.

As of December 31, 1995, letters of credit aggregating \$9.6 million were outstanding under the Credit Agreements. The Credit Agreements permit the Company to make loans to affiliates, and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to \$60 million, of which \$2.3 million had been utilized as of December 31, 1995.

Borrowings by the Company, including those under the Credit Agreements, are subject to the application of certain financial covenants contained in such agreements and in the indenture relating to the Senior Discount Notes due 1998 issued by G-I Holdings. As of December 31, 1995, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amounts available for borrowing under the Credit Agreements. The Credit Agreements and the indenture relating to the 9% Notes also limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. As of December 31, 1995, under the most restrictive of such limitations, the Company could have paid dividends in the aggregate amount of \$50.8 million.

The Credit Agreements and the indenture relating to the 9% Notes contain additional affirmative and negative covenants, including restrictions on liens, investments, transactions with affiliates of the Company, sale-leaseback transactions, and restrictions on mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit Agreements also provide for a default if there is a change in control (as defined) of the Company.

Neither the Credit Agreements nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that if the Company issues any debt secured by a lien on the stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured.

The Company believes that the fair value of its non-public indebtedness approximates the book value of such indebtedness, because the interest rates on such indebtedness are at floating short-term rates. The Credit Agreements also provide for adjustments to the interest rate if there is a change in the credit rating of the Company. With respect to the Company's publicly traded debt securities, the Company has obtained

estimates of fair values from an independent source believed to be reliable.

The aggregate maturities of long-term debt as of December 31, 1995 for the next five years are as follows:

(Thousands)	
1996	\$ 398
1997	433
1998	108,466
1999	238,290
2000	121

In the above table, 1998 maturities include the \$67.2 million long-term note payable to G-I Holdings (see Note 10) and the \$40.8 million of borrowings outstanding under the four-year Credit Agreement as of December 31, 1995, based on the expiration of such Credit Agreement in October 1998. Maturities in 1999 include the \$200 million of 9% Notes and the \$38.1 million mortgage obligation.

At December 31, 1995, the Company's foreign subsidiaries had total available short-term lines of credit aggregating \$38.8 million, of which \$17.4 million were unused. The weighted average interest rate on the Company's short-term borrowings as of December 31, 1995 and 1994 was 5.8% and 6.1%, respectively.

## Note 8

### BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

#### *Defined Contribution Plan*

The Company provides a defined contribution plan for eligible employees. The Company contributes up to 7% of participants' compensation (of which up to 4% of participants' compensation is contributed in the form of the Company's common stock at a \$.50 per share discount), and also contributes fixed amounts, ranging from \$50 to \$750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. The aggregate contributions by the Company were \$6.3, \$6.1 and \$5.2 million for 1995, 1994 and 1993, respectively.

#### *Defined Benefit Plans*

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

The Company's net periodic pension cost for the Hourly Retirement Plan included the following components:

(Thousands)	Year Ended December 31,		
	1995	1994	1993
Service cost	\$ 287	\$ 363	\$ 395
Interest cost	1,349	1,253	1,134
Actual income on plan assets	(976)	(924)	(985)
Net deferral and amortization of unrecognized prior service cost and actuarial losses	275	343	467
Net periodic pension cost	\$ 935	\$ 1,035	\$ 1,011

The following table sets forth the funded status of the Hourly Retirement Plan:

(Thousands)	December 31,	
	1995	1994
Accumulated benefit obligation:		
Vested	\$ 16,919	\$ 13,460
Nonvested	2,273	2,360
Total accumulated benefit obligation	\$ 19,192	\$ 15,820
Projected benefit obligation	\$ 19,192	\$ 15,820
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(15,314)	(10,766)
Projected benefit obligation in excess of plan assets	3,878	5,054
Unrecognized prior service cost	(1,956)	(2,075)
Unrecognized net loss	(796)	(1,180)
Unfunded accrued pension cost	\$ 1,126	\$ 1,799

At December 31, 1995, the difference between the "Projected benefit obligation in excess of plan assets" and the "Unfunded accrued pension cost", in the amount of \$2,752,000, was recorded by the Company as a liability, offset by an intangible asset in the amount of \$1,956,000 and a reduction of stockholders' equity in the amount of \$796,000. The foregoing amounts will be amortized to expense over a period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan.

In determining the projected benefit obligation, the weighted average assumed discount rate was 7.5% and 9% for 1995 and 1994, respectively. The expected long-term rate of return on assets, used in determining net periodic pension cost, was 9% for 1995 and 1994.

The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was \$1.4, \$1.2 and \$.8 million for 1995, 1994 and 1993, respectively.

#### **Postretirement Medical and Life Insurance**

The Company provides certain medical and life insurance benefits for all retirees who were formerly hourly employees and for certain retirees who were formerly salaried employees. Certain hourly employees may become eligible for benefits if they reach retirement age while working for the Company. The Company accrues the estimated cost of such retiree benefits during covered employees' active service periods.

During 1992, the postretirement medical and life insurance plans for salaried employees were terminated, with certain exceptions for salaried employees then over age 55 with 10 years of service. Retirees as of December 31, 1992 who were formerly salaried employees maintain life insurance coverage and receive a Company subsidy of up to \$800 per year towards medical coverage, with certain exceptions. Subsequently, the Company negotiated the termination of postretirement medical and life insurance plans for hourly employees, with certain exceptions for hourly employees then over age 50 with 15 or more years of service.

The following table shows the components of the accrued postretirement health care cost obligation as of December 31, 1995 and 1994:

(Thousands)	December 31,	
	1995	1994
Accumulated postretirement benefit obligation:		
Retirees, dependents and beneficiaries eligible for benefits	\$ 9,053	\$ 8,038
Active employees fully eligible for benefits	2,042	1,967
Active employees not fully eligible for benefits	121	107
Total accumulated postretirement benefit obligation	11,216	10,112
Fair value of plan assets	-	-
Unrecognized prior service cost and unrecognized net gains (losses)	(241)	1,027
Accrued postretirement benefit obligation	\$ 10,975	\$ 11,139

The net periodic postretirement benefit cost included the following components:

(Thousands)	Year Ended December 31,		
	1995	1994	1993
Service cost	\$ 3	\$ 39	\$ 75
Interest cost	884	845	1,012
Amortization of unrecognized prior service cost	(145)	(25)	-
Net periodic postretirement benefit cost	\$ 742	\$ 859	\$ 1,087

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 1992 who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of \$800 per year. With respect to retirees who were formerly hourly employees, most such retirees are subject to a \$5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 14% and 8% annual rate of increase in the Company's per capita cost of providing medical benefits was assumed for 1996 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5% and 9% for 1995 and 1994, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1995 by \$850,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1995 by \$113,000.

## Note 9

### STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees (the "Plan"), as amended, authorizes the grant of options to purchase a maximum of 5,000,000 shares of the Company's common stock. In December 1995, the Company's Board of Directors approved an amendment to the Plan, subject to stockholder approval, to permit the Compensation Committee of the Board of Directors to determine the exercise price and vesting schedule of options granted under the Plan. In December 1995, the Company granted options to certain employees to purchase 215,500 shares of the Company's common stock at an exercise price of \$5.875 per share. The difference of \$5 per share between the exercise price and the fair market value of such shares on the date of grant will be recognized as compensation expense over the vesting period of 2½ years. All other employee options granted under the Plan have an exercise price equal to the fair market value of such shares on the date of grant and become exercisable at a rate of 20% per year on each

of the first five anniversaries of the date of grant. Special vesting rules apply to options granted to non-employee directors.

In 1993, the Company extended an offer to holders of outstanding stock options with exercise prices ranging from \$7.25 to \$14.00 to exchange their existing options for a lesser number of new options with an exercise price of \$6.75.

The following is a summary of transactions pertaining to the Plan:

(Number of Shares)	1995	1994	1993
Outstanding January 1	2,199,716	1,228,964	1,883,649
Granted	1,355,510	1,321,020	825,509
Exercised	(28,805)	-	-
Exchanged	-	-	(1,177,518)
Terminated	(248,982)	(350,268)	(302,676)
Outstanding December 31	3,277,439	2,199,716	1,228,964
At December 31:			
Exercisable	710,750	332,763	151,118
Available for grant	1,722,561	800,284	1,771,036
Option Price Range Per Share:			
Outstanding	\$ 5.875-	\$ 6.125-	\$ 6.75-
	\$ 14.00	\$ 14.00	\$ 14.00
Exercised	\$ 6.75-	-	-
	\$ 7.25	-	-

## Note 10

### RELATED PARTY TRANSACTIONS

Building Materials Corporation of America ("BMCA"), an indirect subsidiary of GAF, purchases all of its colored roofing granule requirements from the Company (except for the requirements of its California roofing plant) under a requirements contract which was renewed for 1996 and is subject to annual renewal unless terminated by the Company or BMCA. In 1995, BMCA purchased approximately \$45.7 million of mineral products from the Company, representing approximately 7% of the Company's total net sales and approximately 53% of the Company's net sales of mineral products. Sales by the Company to BMCA totaled \$42.5 and \$43.5 million for 1994 and 1993, respectively. In addition, in December 1995, U.S. Intec, Inc. ("U.S. Intec"), an indirect subsidiary of GAF, commenced purchasing substantially all of its requirements for colored roofing granules from the Company (except for the requirements of its Stockton, California and Corvallis, Oregon plants) pursuant to a requirements contract which expires December 31, 1997.

The receivable from BMCA for sales of mineral products as of December 31, 1995 and 1994 was \$2.7 and



\$2.6 million, respectively, and the receivable from U.S. Intec for sales of mineral products as of December 31, 1995 was \$.1 million.

Pursuant to a Management Agreement, which expires at the end of 1996, the Company provides certain general management, administrative, and facilities services to certain of its affiliates and its parents, including BMCA, GAF Broadcasting Company, Inc., U.S. Intec, G-I Holdings and GCC. Charges by the Company for providing such services aggregated \$4.5, \$4.4 and \$4.8 million for 1995, 1994 and 1993, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges were increased to an annual rate of \$4.9 million, effective January 1, 1996, and can be further adjusted by amendment if there is a substantial change in the cost to the Company of providing such services. In addition to the management services charge, BMCA paid approximately \$.7 million to the Company in each of 1995, 1994 and 1993, primarily for telecommunications and information services, and G-I Holdings and BMCA paid an aggregate of approximately \$.2 and \$.3 million in 1995 and 1994, respectively, to the Company for certain legal services, which in each case were not encompassed within the Management Agreement.

See Note 3 for a discussion of the Tax Sharing Agreement.

Under the terms of the Credit Agreements, the Company or any of its subsidiaries are permitted to make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed \$60 million outstanding at any time (see Note 7).

The Company and its subsidiaries also borrow from G-I Holdings and its subsidiaries at the same rates available to the Company under the Credit Agreements. Such borrowings outstanding at December 31, 1995 and 1994 comprised \$50.6 and \$41.3 million, respectively, classified as current, and \$67.2 and \$91.7 million, respectively, classified as long-term.

Certain executive officers of the Company were granted stock appreciation rights in 1993 and 1994 relating to GAF's common stock. Compensation expense in connection with such stock appreciation rights is reflected in G-I Holdings' operating expense and was immaterial for 1995, 1994 and 1993.

# Note 11

## BUSINESS SEGMENT INFORMATION

(Millions)	Year Ended December 31,		
	1995	1994	1993
Net sales:			
Specialty Chemicals	\$ 556.9	\$ 482.4	\$ 434.5
Mineral Products (1)	86.1	81.1	81.3
Other	46.0	36.5	32.5
Net sales	\$ 689.0	\$ 600.0	\$ 548.3
Operating income:			
Specialty Chemicals	\$ 105.5	\$ 79.9	\$ 59.8
Mineral Products	16.3	14.6	16.9
Other	5.3	4.7	2.2
Provision for restructuring (2)	—	—	(13.8)
Total operating income	\$ 127.1	\$ 99.2	\$ 65.1
Identifiable assets:			
Specialty Chemicals	\$ 980.0	\$ 986.3	\$ 972.6
Mineral Products	157.9	161.2	161.5
Other	25.6	20.6	19.5
General Corporate	149.4	83.2	89.7
Total assets	\$ 1,312.9	\$ 1,251.3	\$ 1,243.3
Capital expenditures and acquisitions:			
Specialty Chemicals	\$ 31.1	\$ 22.5	\$ 54.5
Mineral Products	6.0	8.3	8.3
Other	1.8	.3	.1
Total	\$ 38.9	\$ 31.1	\$ 62.9
Depreciation:			
Specialty Chemicals	\$ 27.9	\$ 25.2	\$ 22.1
Mineral Products	7.2	6.8	6.2
Other	.9	.8	.4
Total	\$ 36.0	\$ 32.8	\$ 28.7

(1) Includes sales to BMCA of \$45.7, \$42.5 and \$43.5 million for 1995, 1994 and 1993, respectively, and sales to U.S. Intec of \$.1 million for 1995.

(2) On a segment basis, the provision for restructuring (see Note 2) relates to Specialty Chemicals (\$11.8 million), Mineral Products (\$.3 million), and Other (\$1.7 million).

The Company manufactures more than 325 specialty chemicals having numerous applications in consumer and industrial products encompassing such worldwide markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's mineral products business manufactures ceramic-coated colored roofing granules which are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles (see Note 10). The Company also manufactures filter products and advanced materials.

**Note  
12**

**GEOGRAPHIC INFORMATION**

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

(Millions)	Year Ended December 31,		
	1995	1994	1993
Net sales:			
Domestic operations (1)	\$ 345.2	\$ 306.4	\$ 286.8
Europe (2)	218.2	187.7	167.7
Asia-Pacific	92.1	76.6	69.3
Other foreign operations	33.5	29.3	24.5
Net sales	\$ 689.0	\$ 600.0	\$ 548.3
Operating income:			
Domestic operations	\$ 57.9	\$ 41.3	\$ 26.9
Europe	49.7	37.5	35.7
Asia-Pacific	17.0	16.2	13.2
Other foreign operations	2.5	4.2	3.1
Provision for restructuring (3)	-	-	(13.8)
Operating income	127.1	99.2	65.1
Equity in earnings of joint venture	5.4	2.0	2.1
Interest expense and other, net	(26.4)	(28.7)	(17.4)
Income before income taxes and extraordinary item	\$ 106.1	\$ 72.5	\$ 49.8
Identifiable assets:			
Domestic operations	\$ 984.5	\$ 1,001.4	\$ 1,001.5
Europe (4)	133.1	128.9	118.5
Asia-Pacific	32.2	28.5	24.9
Other foreign operations	13.7	9.3	8.7
General Corporate	149.4	83.2	89.7
Total assets	\$ 1,312.9	\$ 1,251.3	\$ 1,243.3

(1) Net sales-domestic operations excludes sales by the Company's domestic subsidiaries to foreign-based subsidiaries of \$140.9, \$135.1 and \$113.6 million for 1995, 1994 and 1993, respectively.

(2) Net sales-Europe excludes sales by the Company's European subsidiaries to domestic and other foreign-based subsidiaries of \$19.9, \$12.8 and \$7.2 million for 1995, 1994 and 1993, respectively.

(3) On a geographic basis, the provision for restructuring (see Note 2) relates to domestic operations (\$7.6 million), Europe (\$5.7 million), Asia-Pacific (\$.4 million), and other foreign operations (\$.1 million).

(4) Identifiable assets-Europe include the Company's 50% ownership of GAF-Hüls.

More than 60% of the Company's international sales in 1995 were in countries in Western Europe and Japan which are subject to currency exchange rate fluctuation risks. See Note 1 for a discussion of the Company's policy to manage these risks. Other countries in which the Company has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

## Note 13

### ACQUISITIONS

In February 1993, the Company acquired the MTM fine chemicals business. The acquisition was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair values of the identifiable net assets acquired. The results of such acquisition are included from the date of acquisition; the effect was not material to consolidated operations.

## Note 14

### COMMITMENTS AND CONTINGENCIES

GAF, G-I Holdings, G Industries and GCC are presently dependent upon the earnings and cash flow of their subsidiaries, including the Company and BMCA, in order to satisfy their obligations, including as of December 31, 1995, \$509.8 million of G-I Holdings' 11.125% Senior Discount Notes due October 1998, the asbestos liability discussed below, and approximately \$141.8 million of various tax and other liabilities, including tax liabilities relating to the Surfactants Partnership (discussed in Note 3). Of such obligations, \$90.8 million (net of estimated insurance recoveries of \$12 million) is estimated to be payable during 1996. GAF has advised the Company that it expects to obtain funds to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from subsidiaries, as to which there are restrictions under the Company's Credit Agreements, the indenture relating to the Company's 9% Notes and the indenture relating to BMCA's 11 3/4% Senior Deferred Coupon Notes due 2004, and from payments pursuant to Tax Sharing Agreements between GAF and its subsidiaries. In the event that such parent corporations should become unable to meet their cash requirements from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations, or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

#### *Asbestos Litigation Against GAF*

GAF has advised the Company that, as of December 31, 1995, GAF had been named as a defendant in approximately 48,800 pending lawsuits involving

alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 200,000 other lawsuits involving similar claims, and as a co-defendant in 10 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1995, was approximately \$381.9 million (before estimated present value of recoveries from products liability insurance policies of approximately \$187.7 million and related deferred tax benefits of approximately \$72 million). GAF and G-I Holdings have advised the Company that certain components of the asbestos liability and the related insurance recoveries have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability, as of December 31, 1995, before estimated recoveries from products liability insurance policies, was \$427.1 million. As of such date, G-I Holdings' stockholder's equity was a deficit of \$1.7 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the pending settlement of future asbestos bodily injury claims (described below) becoming effective and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class) against GAF and other members of the CCR. The Settlement, if effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement. The favorable resolution of certain insurance-related litigation is a condition to the effectiveness of the Settlement. On August 16, 1994, the United States District Court in Philadelphia approved the Settlement, holding that the terms of the Settlement are fair to the class as a whole. Certain members of the class have filed objections to the Settlement, and an appeal from certain aspects of the Court's ruling was argued before the U.S. Court of Appeals for the Third Circuit on November 21, 1995.

While it is impossible to predict with certainty the outcome of any appeal, GAF has advised the Company that it believes that the decision will ultimately be affirmed.

GAF and G-I Holdings have advised the Company that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised the Company that they anticipate that substantially all of the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised the Company that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company.

#### ***Environmental Litigation***

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

At most sites, the Company anticipates that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. The Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1995, will be \$17.4 million, before insurance recoveries reflected on the Company's balance sheet (discussed below) of \$7 million ("estimated recoveries"). The gross environmental liability is included within "Accrued liabilities" and "Other liabilities", and the estimated recoveries are included within "Other current assets" and "Other assets".

In the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity or financial position of the Company. However, adverse decisions or events, particularly as to the merits of the Company's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it will receive the estimated recoveries and it may receive amounts substantially in excess thereof. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for the Environmental Claims, although the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

The estimated recoveries are based in part upon interim agreements with certain insurers. The Company terminated these agreements in 1995 and commenced litigation seeking amounts substantially in excess of the estimated recoveries. While the Company believes that its claims are meritorious, there can be no assurance that the Company will prevail in its efforts to obtain amounts at or in excess of the estimated recoveries.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection (NJDEP) requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee the Company's performance. In April 1993, NJDEP issued orders which require the prevention of

discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. The Company believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than \$7.5 million (in connection with which the Company anticipates insurance recoveries of approximately \$5 million).

#### **Lease Commitments**

Leases for certain equipment at two of the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net", at December 31, 1995 and 1994 in the amount of \$2.1 and \$1.3 million, respectively. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Rental expense on operating leases was \$8.2, \$7.4 and \$7 million for 1995, 1994 and 1993, respectively. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1995 were as follows:

(Thousands)	Capital Leases	Operating Leases
1996	\$ 535	\$ 2,758
1997	535	1,839
1998	494	1,055
1999	200	573
2000	146	276
Later years	194	247
Total minimum payments	2,104	\$ 6,748
Less interest included above	(377)	
Present value of net minimum lease payments	\$ 1,727	

#### **Other Commitments**

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analysis of additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors, the Company intends to proceed with the project by the end of 1997. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 82.3% owned subsidiary of GAF Chemicals Corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

*Arthur Andersen LLP*  
*Arthur Andersen LLP*

Arthur Andersen LLP  
Roseland, New Jersey  
February 20, 1996

*Quarterly Financial Data* (unaudited)

(Millions, except per share amounts)	1995 By Quarter				1994 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	\$ 179.9	\$ 182.6	\$ 167.8	\$ 158.7	\$ 147.5	\$ 155.8	\$ 149.2	\$ 147.5
Cost of products sold	113.2	109.2	99.9	92.4	90.3	93.2	92.5	91.7
Gross profit	\$ 66.7	\$ 73.4	\$ 67.9	\$ 66.3	\$ 57.2	\$ 62.6	\$ 56.7	\$ 55.8
Operating income	\$ 31.2	\$ 36.2	\$ 31.8	\$ 27.9	\$ 24.8	\$ 29.7	\$ 22.8	\$ 21.9
Income before income taxes and extraordinary item	\$ 24.1	\$ 29.6	\$ 27.5	\$ 24.9	\$ 16.5	\$ 23.6	\$ 22.7	\$ 9.7
Income taxes	(9.0)	(11.1)	(9.9)	(8.7)	(6.2)	(8.8)	(8.4)	(3.4)
Income before extraordinary item	15.1	18.5	17.6	16.2	10.3	14.8	14.3	6.3
Extraordinary item, net of related income tax benefit	-	-	-	-	-	-	(1.2)	-
Net income	\$ 15.1	\$ 18.5	\$ 17.6	\$ 16.2	\$ 10.3	\$ 14.8	\$ 13.1	\$ 6.3
Earnings per common share <sup>(1)</sup> :								
Income before extraordinary item	\$ .15	\$ .19	\$ .18	\$ .17	\$ .10	\$ .15	\$ .14	\$ .06
Extraordinary item	-	-	-	-	-	-	(.01)	-
Net income	\$ .15	\$ .19	\$ .18	\$ .17	\$ .10	\$ .15	\$ .13	\$ .06

(1) Earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

**MARKET FOR COMMON STOCK**

The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange. As of February 23, 1996, there were 341 holders of record of the Company's outstanding common stock.

(Dollars)	1995 By Quarter				1994 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Price Range of Common Stock:								
High	\$ 7 <sup>5</sup> / <sub>8</sub>	\$ 8 <sup>5</sup> / <sub>8</sub>	\$ 9 <sup>7</sup> / <sub>8</sub>	\$ 11	\$ 7	\$ 7	\$ 8 <sup>1</sup> / <sub>2</sub>	\$ 8
Low	6 <sup>3</sup> / <sub>8</sub>	6 <sup>5</sup> / <sub>8</sub>	8 <sup>3</sup> / <sub>8</sub>	8 <sup>1</sup> / <sub>8</sub>	5 <sup>3</sup> / <sub>8</sub>	5 <sup>7</sup> / <sub>8</sub>	6 <sup>3</sup> / <sub>8</sub>	6
Cash Dividends Per Common Share	-	-	-	-	-	\$ .025	-	\$ .025

The Company announced in the second quarter of 1995 that its Board of Directors had eliminated the 2½ cents per share semi-annual dividend on the Company's common stock. The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 7 to Consolidated Financial Statements for information regarding restrictions on the payment of dividends. Any decision to resume the payment of dividends, and the timing and amount thereof, is dependent upon, among other things, the Company's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will resume the declaration and payment of dividends or as to the amount thereof.



# *Board of Directors and Corporate Officers*

## **BOARD OF DIRECTORS**

### **Mark A. Buckstein**

Executive Vice President,  
General Counsel and Secretary,  
International Specialty  
Products Inc.

### **Charles M. Diker**

Chairman of the Board,  
Cantel Industries Inc.

### **Carl R. Eckardt**

President and  
Chief Operating Officer,  
International Specialty  
Products Inc.

### **Harrison J. Goldin**

Partner,  
Goldin Associates, L.L.C.

### **Samuel J. Heyman**

Chairman of the Board and  
Chief Executive Officer,  
International Specialty  
Products Inc.

### **Sanford Kaplan**

Private Investor

### **Burt Manning**

Chairman and  
Chief Executive Officer,  
J. Walter Thompson Company

## **CORPORATE OFFICERS**

### *Executive Officers:*

#### **Samuel J. Heyman**

Chairman of the Board and  
Chief Executive Officer

#### **Carl R. Eckardt**

President and  
Chief Operating Officer

#### **Mark A. Buckstein**

Executive Vice President,  
General Counsel and Secretary

### *Senior Vice Presidents:*

#### **James P. Rogers**

Senior Vice President,  
Finance and Treasurer

#### **James J. Conway**

Senior Vice President and  
General Manager,  
Specialty Chemicals

#### **Richard B. Olsen**

Senior Vice President and  
General Manager,  
Mineral Products

#### **James J. Strupp**

Senior Vice President,  
Human Resources

### *Vice Presidents:*

#### **Stephen Andrews**

Vice President,  
Engineering

#### **Paul J. Aronson**

Vice President,  
Taxes

#### **Harry R. Asplund**

Vice President,  
Strategic Capital Planning

#### **William H. Baum**

Vice President,  
Sales and Marketing

#### **Graeme Buckley**

Vice President and  
General Manager,  
Asia-Pacific

#### **Alan J. Carlin**

Vice President,  
Manufacturing and Technology

#### **Roger J. Cope**

Vice President and  
Business Director,  
Personal Care

#### **Allan Dinkoff**

Vice President,  
Litigation

#### **Arthur Dresner**

Vice President,  
Corporate Development

#### **Geoffrey A. Gaywood**

Vice President and  
Managing Director,  
Europe

#### **Randall R. Lay**

Vice President and  
Chief Financial Officer

#### **Robert M. Mininni**

Vice President,  
Research and Development

#### **John F. O'Keefe, Jr.**

Vice President,  
Purchasing

#### **James M. Potter**

Vice President and  
Business Director,  
Pharmaceutical, Agricultural &  
Beverage Products

#### **Mark A. Presto**

Vice President and Director,  
Corporate Finance

#### **Daniel Price**

Vice President,  
Western Hemisphere

#### **M.J. Rhonheimer**

Vice President and  
Business Director,  
Industrial Products

#### **Raymond W. Smith, Jr.**

Vice President,  
Global Projects

#### **Jonathan H. Stern**

Vice President,  
Strategic Business Services

#### **John F. Tancredi**

Vice President and  
Chief Quality Officer

### *Assistant Secretary:*

#### **Alvin Yanofsky**

Director of Taxes and  
Assistant Secretary

# *International Specialty Products Facilities*

---

## **UNITED STATES**

### **MANUFACTURING FACILITIES**

Alabama, Huntsville  
Kentucky, Calvert City  
Missouri, Annapolis  
New Jersey, Belleville  
New Jersey, Chatham  
Ohio, Columbus  
Pennsylvania, Blue Ridge Summit  
Tennessee, Memphis  
Texas, Seadrift  
Texas, Texas City  
Wisconsin, Pembine

### **RESEARCH LABORATORIES**

Alabama, Huntsville  
Kentucky, Calvert City  
Maryland, Hagerstown  
New Jersey, Belleville  
New Jersey, Chatham  
New Jersey, Wayne  
Ohio, Columbus  
Texas, Texas City

### **SALES OFFICES**

California, Sherman Oaks  
Illinois, Lombard  
Maryland, Hagerstown  
New Jersey, Belleville  
New Jersey, Bridgewater  
New Jersey, Chatham  
New Jersey, Wayne  
North Carolina, Charlotte  
Ohio, Cleveland

Ohio, Columbus  
Tennessee, Memphis  
Texas, Dallas

## **INTERNATIONAL**

### **MANUFACTURING FACILITIES**

Belgium, Sint-Niklaas  
Brazil, São Paulo  
Canada, Mississauga, Ontario  
Canada, Oakville, Ontario  
Germany, Hamburg  
Singapore

### **RESEARCH LABORATORIES**

China, Shanghai  
Germany, Cologne  
Great Britain, Guildford  
Singapore

### **SALES OFFICES**

Argentina, Buenos Aires  
Australia, Box Hill, Victoria  
Australia, Silverwater, N.S.W.  
Austria, Vienna  
Belgium, Sint-Niklaas  
Brazil, São Paulo  
Canada, Mississauga, Ontario  
Canada, Ville St. Laurent, Quebec  
China, Beijing  
China, Chengdu  
China, Guangzhou  
China, Shanghai  
Czech Republic, Prague  
Denmark, Copenhagen  
Finland, Kuaniainen

France, Paris  
Germany, Frechen  
Great Britain, Manchester  
Hong Kong  
Hungary, Budapest  
India, Bombay  
Indonesia, Jakarta  
Ireland, Dublin  
Italy, Milan  
Japan, Osaka  
Japan, Tokyo  
Korea, Seoul  
Mexico, Mexico City  
Netherlands, Schiedam  
New Zealand, Otahuhu  
Norway, Oslo  
Poland, Warsaw  
Puerto Rico, Rio Piedras  
Russia, Moscow  
Singapore  
Spain, Barcelona  
Sweden, Arsta  
Switzerland, Baar  
Taiwan, Taipei  
Thailand, Bangkok  
Turkey, Istanbul  
Venezuela, Caracas

**AFFILIATE**  
Germany, Marl  
GAF-Hüls Chemie GmbH  
India, Nagpur  
Chemfields Pharmaceuticals Pvt. Ltd.

## *Shareholder Information*

---

### **ANNUAL MEETING**

The 1996 Annual Meeting of Shareholders is scheduled to be held at 10 a.m., Monday, May 13, at:

The Bank of New York  
48 Wall Street, 11th Floor  
New York, New York 10286

### **FORM 10-K**

A copy of the Company's Annual Report on Form 10-K (including financial statements and schedules), as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:

International Specialty Products  
Shareholder Relations Department  
1361 Alps Road  
Wayne, New Jersey 07470

Or you may call:  
1-800-526-5315

### **STOCK TRANSFER AGENT AND REGISTRAR**

The Bank of New York  
101 Barclay Street  
New York, New York 10007  
Telephone (800) 524-4458

### **INVESTOR RELATIONS**

Inquiries should be directed to:  
Christopher W. Nolan  
Director, Investor Relations  
International Specialty Products  
1361 Alps Road  
Wayne, New Jersey 07470  
Telephone (201) 628-3463

**International Specialty Products Inc.**  
common stock is listed on the New York  
Stock Exchange (symbol: "ISP").





**INTERNATIONAL SPECIALTY PRODUCTS**  
1361 ALPS ROAD  
WAYNE, NEW JERSEY 07470

**EXHIBIT 21**

LIST OF SUBSIDIARIES

<u>COMPANY</u>	<u>STATE OF INCORPORATION</u>	<u>D/B/A</u>
International Specialty Products Inc. <sup>1</sup>	Delaware	
ISP Management Company, Inc.	Delaware	
ISP Chemicals Inc.	Delaware	
ISP Newark Inc.	Delaware	
ISP Van Dyk Inc.	Delaware	
ISP Fine Chemicals Inc.	Delaware	
ISP Minerals Inc.	Delaware	
ISP Filters Inc.	Delaware	
ISP Technologies Inc.	Delaware	
ISP Mineral Products Inc.	Delaware	
ISP Environmental Services Inc.	Delaware	
Bluehall Incorporated	Delaware	
Verona Inc.	Delaware	
ISP Realty Corporation	Delaware	
ISP Real Estate Company, Inc.	Delaware	
ISP Investments Inc.	Delaware	
ISP Global Technologies Inc.	Delaware	
ISP International Filters Inc.	Delaware	
ISP International Corp.	Delaware	
ISP (Puerto Rico) Inc.	Delaware	
ISP Andina, C.A.	Venezuela	
ISP Argentina S.A.	Argentina	
ISP Asia Pacific Pte Ltd.	Singapore	
ISP (Australasia) Pte Ltd.	Australia	
ISP (Belgium) N.V.	Belgium	
ISP (Belgium) International N.V.	Belgium	
ISP do Brasil Ltda.	Brazil	
ISP (Canada) Inc.	Canada	
ISP Ceska Republika Spol, S.R.O.	Czech. Rep.	
ISP (China) Limited	China	
ISP Filters (Canada) Inc.	Canada	
ISP Filters Pte Ltd.	Singapore	
ISP Global Operations (Barbados) Inc.	Barbados	
ISP Global Technologies (Belgium) S.A.	Belgium	
ISP Global Technologies		

<sup>1</sup>Approximately 82% of the common stock of International Specialty Products Inc. is owned by GAF Chemicals Corporation.

(Germany) Holding GmbH	Germany
ISP Global Technologies	
Deutschland GmbH	Germany
HPF-Hanseatic	
Filterprodukte GmbH	Germany
International Specialty	
Products ISP (France) S.A	France
ISP Ireland <sup>2</sup>	Ireland
ISP Freight Services N.V.	Belgium
ISP (Great Britain) Co. Ltd.	England
ISP (Hong Kong) Limited	Hong Kong
ISP (Italia) S.r.l.	Italy
ISP (Japan) Ltd.	Japan
ISP (Korea) Limited	Korea
ISP Mexico, S.A. de C.V.	Mexico
ISP (Norden) A.B.	Sweden
ISP (Osterreich) Ges.m.g.h.	Austria
ISP (Polska) Sp.z. o.p.	Poland
ISP Sales (Barbados) Inc.	Barbados
ISP Sales (U.K.) Limited	Ireland
ISP (Singapore) Pte Ltd.	Singapore
ISP (Switzerland) A.G.	Switzerland
ISP (Thailand) Co., Ltd.	Thailand
Chemfields Pharmaceuticals	
Private Limited <sup>3</sup>	India

---

<sup>2</sup>25% owned by ISP (Italia) S.r.l.; 75% owned by International Specialty Products ISP (France) S.A.

<sup>3</sup>50.1% owned by ISP Global Technologies Inc.

**EXHIBIT 23**

# ARTHUR ANDERSEN LLP

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated February 20, 1996 included in International Specialty Products Inc.'s (the Company's) Annual Report to Stockholders for the fiscal year ended December 31, 1995. Furthermore, we consent to the incorporation of our report dated February 20, 1996, included in or made part of this Form 10-K, into the Company's previously filed Registration Statements on Forms S-8 File Nos. 33-54724, 33-92518 and 33-94020.

*Arthur Andersen LLP*  
ARTHUR ANDERSEN LLP

Roseland, New Jersey  
March 28, 1996